PROPOSALS TO IMPROVE THE FEDERAL-STATE UNEMPLOYMENT INSURANCE SYSTEM

HEARING

BEFORE THE

SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION

OF THE

COMMITTEE ON WAYS AND MEANS HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

SECOND SESSION

SEPTEMBER 12, 1984

Serial 98-111

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE

41-480 O WASHINGTON : 1985

H781-26

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PROPOSALS TO IMPROVE THE FEDERAL-STATE UNEMPLOYMENT INSURANCE SYSTEM

WEDNESDAY, SEPTEMBER 12, 1984

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON PUBLIC ASSISTANCE AND
UNEMPLOYMENT COMPENSATION,
Washington, DC.

The subcommittee met at 10 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Harold Ford (chairman, of the subcommittee) presiding.

[The press release announcing the hearing follows:]

[Press release of Friday, Aug. 24, 1984]

HON. HAROLD FORD (D., TENN.), CHAIRMAN, SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A PUBLIC HEARING ON PROPOSAL TO IMPROVE THE FEDERAL-STATE UNEMPLOYMENT INSURANCE SYSTEM, TO BE HELD ON WEDNESDAY, SEPTEMBER 12, 1984

The Honorable Harold Ford (D., Tenn.), Chairman, Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means, U.S. House of Representatives, announced today that a public hearing on proposals to improve the Federal-State unemployment insurance system will be held on Wednesday, September 12, 1984, in room 1100 Longworth House Office Building beginning at 10:00 a.m.

In announcing the hearing, Chairman Ford said, "The purpose of the hearing will be to begin an examination of all aspects of the unemployment insurance system, including the adequacy of the protection it provides, the financing of the system, the respective roles of the Federal and State governments in providing unemployment insurance, and the performance of the system during the recent recession. The Subcommittee is particularly interested in testimony on the bill H.R. 3863, the Extended Unemployment Compensation Act of 1983 (Mr. Stark, Mr. Pease, and Ms. Kaptur). It is important to begin this review of the unemployment insurance system now, because of the expiration of the Federal Supplemental Compensation program at the end of March, 1985."

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD

Individuals and organizations interested in presenting oral testimony before the Subcommittee must submit their requests to be heard by telephone to Harriett Lawler [(202) 225-3627] no later than noon, Friday, September 7, 1984. The request should be followed by a formal written request addressed to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515.

It is urged that persons and organizations having a common position make every effort to designate one spokesman to represent them in order for the Subcommittee to hear as many points of view as possible. Time for oral presentations will be limited with the understanding that a more detailed statement may be included in the printed record of the hearings. This process will afford more time for members to

interrogate witnesses. In order to expedite the hearings, witnesses may be grouped as panelists with strict time limitations for each panelist.

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Subcommittee are required to submit 75 copies of their prepared statments to the full Committee office, room 1102 Longworth House Office Building, at least 24 hours in advance of their scheduled appearance.

Each statement to be presented to the Subcommittee or any written statement submitted for the printed record must contain the following information:

1. The name, full address, and capacity in which the witness will appear (as well as a telephone number where he or his designated representative may be reached);
2. A list of any clients or persons, or any organization for whom the witness appears; and
3. A topical outline or summary of comments and recommendations.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE

Any interested person or organization may file a written statement for inclusion in the printed record of the hearing. Persons submitting written comments should submit at least six (6) copies by the close of business Friday, September 21, 1984 to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. An additional supply of statements for the printed record may be furnished for distribution to the press and public if submitted to the full Committee office before the hearing begins.

Chairman FORD. The Subcommittee on Public Assistance and Unemployment Compensation will come to order.

Today we have scheduled hearings on the unemployment compensation issue. We know that this subcommittee has scheduled a long list of witnesses to testify before the subcommittee today. The committee has plans of hearing from all of the witnesses.

I would like to say that today the Subcommittee on Public Assistance and Unemployment Compensation will begin an examination of proposals to improve the Federal-State unemployment insurance system.

We want to examine, No. 1, the accuracy of the protection the system offers to workers, No. 2, the financing of the system, No. 3, the respective role of the Federal and State governments in providing unemployment insurance, and No. 4, the performance of the system in recent years.

While the total unemployment rate in the country has decreased, it remains unacceptably high. Eight and a half million Americans are out of work. There are some figures that indicate the unemployment insurance system is failing to protect a substantial portion of our unemployed population.

In July, only 31 percent of the unemployed received any unemployment benefits. The June figure was less than 30 percent, an historic low. Of the 8.5 million unemployed, 1.5 million have been out of work 27 weeks or longer. That means that they have exhausted their regular State unemployment benefits, and the only remaining benefits will come from the Federal Supplemental Program, which is due to expire at the end of March 1985.

The permanent extended benefit program is virtually nonexistent. No extended benefits are currently being paid. With unemployment rates exceeding 9 and 10 percent in several States, the lack of an extended benefit program does not make sense, and I hope that today's session will assist the subcommittee in developing proposals to improve this vital Social Insurance Program.

We have a number of witnesses who will be appearing before the subcommittee today. In order for all of the witnesses to be heard and to allow the members adequate time for their questions, we would like all testimony to be limited to 5 minutes, but your complete statement, written statement will be made a part of the record.

We are seeking cooperation from all of the witnesses who will be testifying before the committee today. We know that once the Congress adjourns, the 98th Congress, that we will reconvene a new Congress in January 1985 which will give us some 60 days in which to complete a package before the March 31 expiration date of the FSC Program.

It is our intent to hear from the witnesses today and reschedule the subcommittee in markup sessions at the beginning of the new Congress, and hopefully we can take into consideration some of the bills that have already been dropped into the hopper, and information that we will receive today, and compile that information in putting together a piece of legislation that will in fact strengthen the unemployment compensation program.

In light of that, the Chair would like to call upon the first witness today who will appear before the committee, Secretary O'Keefe, the Deputy Assistant Secretary of Employment and Training Administration. We are delighted to have him. Along with him is Mrs. Carolyn Golding, Director of the U.S. Unemployment Insurance Service, and Mr. James Van Erden, Chief Actuary, U.S. Unemployment Insurance Service.

At this time the Chair will recognize you, Mr. O'Keefe.

STATEMENT OF HON. PATRICK J. O'KEEFE, DEPUTY ASSISTANT SECRETARY FOR EMPLOYMENT AND TRAINING, U.S. DEPARTMENT OF LABOR, ACCOMPANIED BY CAROLYN GOLDING, DIRECTOR, U.S. UNEMPLOYMENT INSURANCE SERVICE; AND JAMES VAN ERDEN, CHIEF ACTUARY, U.S. UNEMPLOYMENT INSURANCE SERVICE

Mr. O'KEEFE. Thank you, Mr. Chairman.

Hearing what you said about the tight agenda on which you are operating, I will submit for the record our full statement, and I thank you for introducing my colleagues.

We certainly appreciate the opportunity to appear before you today to review with you the progress that has been made in the Unemployment Compensation Program in the last 3 years.

We believe that this hearing also presents us with an opportunity to begin what you have just said, identifying and assessing the issues that will confront the system for the remainder of the decade.

Next year, as you know, Mr. Chairman, marks the 50th anniversary of the Federal-State unemployment compensation system. By any standard, this program has to be judged a success. It has provided literally millions of Americans with temporary income support that they needed during periods of brief unemployment and in meeting the temporary income needs of the unemployed, thereby helping them to maintain their purchasing power and stabilizing our economy.

This system has contributed significantly to the unequalled growth of jobs and prosperity in this Nation. As originally designed, that is, as a self-financed system, designed to provide temporary support to workers experiencing short-term periods of unemployment between jobs, the unemployment compensation system has worked well.

Over its almost five decades, however, our economy has changed, and during that same period, some policy changes were adopted both at the Federal and State levels which did not always adhere to the system's original principles or did not fully reflect the changes that occurred in our economy.

In this context, the administration and the Congress have over the last 3 years reviewed the basic structure of the system and made significant improvements in it. Beginning with the recommendations in President Reagan's first budget message in early 1981, working together with you and the rest of the Congress, we have made significant changes that were needed to strengthen the solvency of the Federal and State unemployment funds, thereby helping to assure that the resources will be adequate to pay the benefits of those workers who may need them in the future.

We have worked to eradicate fraud and abuse, and we have sought to restore public confidence in the financial and administrative integrity of the system. We have reformed and improved the permanent Federal-State system of extended benefits, and we have rationalized the payment of benefits to ex-servicemen and women and initiated in September 1982 the federally funded temporary program of Federal supplemental compensation that is now in place through March 1985.

We have also revamped the Trade Adjustment Assistance Program.

Let me turn now, Mr. Chairman, to just a couple of features of what we have accomplished, and some of the problems we originally faced in the system. As I noted before, the system was intended to be self-financing over the course of the economic cycle, and perhaps the largest threat to the unemployment compensation system over the past decade has been the deterioration in that basic solvency.

In calendar year 1981, outstanding Federal loans to the States' unemployment compensation systems totaled $6.3 billion, and the prospects at that time were bleak. Rather than achieving projected loan repayments and a return to solvency, significant further borrowings were in store.

In response to this, Federal policy was revised to return the system to the equilibrium that is essential to the attainment of its basic purpose. A major step toward this objective was the imposition of interest charges on Federal loans to States.

This approach, while carefully maintaining the Federal-State structure of the system and protecting the flexibility of that system to respond to changing economic conditions, has returned to the system the discipline that is necessary to strike that balance between benefits and revenues that is essential to its responsible administration.

I should note that the States have responded quickly and aggressively to the changes in Federal policy, and those State-enacted

changes have occurred on both the revenue and the benefit side. The overall effects of these changes can be seen in two quick figures. From a peak of $14 billion in March 1984, outstanding Federal loans in August 1984 were $9.7 billion.

Although this improvement is in significant part attributable to the robust economic recovery of the past 2 years, the Federal and State policy shifts that have been undertaken in the last 3 years contributed in major ways.

Perhaps more importantly, the long-term consequences of the enacted changes will return to the system the solvency that will thereby assure the availability of benefits for those workers who become temporarily unemployed in the future.

In my more complete statement submitted for the record, Mr. Chairman, we remark on several of the other changes that have been adopted in the past 3 years. Let me quickly highlight some of the changes we have made since the policy changes have put this program on a solid foundation.

We all recognize that in a system as large and diverse as the unemployment compensation system, the efforts to improve its administration must be continuous. If we are to achieve our objectives and retain the confidence of the public, we must continue to make every effort to assure that the resources are managed efficiently and responsibly.

Through the random audit program, through the special studies of the DOL inspector general and ETA, we have identified weaknesses in the UC system on both benefit and revenue sides.

This year, in response to these findings, we embarked on a new initiative that will improve the overall efficiency and integrity of the system. This system is called quality control. It will focus on both the benefit and revenue sides, and it will provide administrators the data necessary to identify where losses are occurring in the system, to diagnose the causes of those losses, and to formulate and assess the corrective actions taken to strengthen the system.

The design of the QC program has been under way for some time, as you and I have discussed before. We will soon submit to you a full description of our proposed approach, and we will want to consult with you and the other members of the committee as we proceed in the design of the QC system.

In summary, when we look back over the past 3 years, Mr. Chairman, I think we see that many needed changes have been made in the Federal-State unemployment compensation system. I believe personally that it is now time to permit these changes to work, and to assess their impact over time.

You asked in your letter of invitation that we address several legislative proposals currently pending. Mr. Chairman, you know that we laud this effort to review the system and to assess the status of our policies. In doing so, however, we cannot ignore the basic principles that undergird this system and assess the extent to which these principles are advanced or inhibited by proposed changes.

The characteristics of the unemployment insurance system that define it and distinguish it from other income transfers are straightforward. It is a self-financed program established under

Federal and State law providing income maintenance during temporary periods of involuntary unemployment due to a lack of work.

It provides eligible workers with partial compensation for wage loss. In carrying out these principles, it helps to maintain the overall stability of our economy. It diminishes the dispersal of employers' trained work forces and the sacrifice of skills attendant in that, and it forestalls the breakdown of labor standards during temporary periods of unemployment.

With that backdrop, let me look at two specific proposals. One is substate triggers. In a report submitted to the committee in June 1984, the Department concluded that it is currently not feasible to implement a program using areas smaller than a State and follow generally accepted principles upon which current UC programs are based, and still meet reasonable criteria of accuracy and timeliness.

That report analyzes in detail the problems with substate triggers, and we are making a copy available for the record.

Although theoretically possible, Mr. Chairman, a system of substate triggers faces serious design and implementation problems. It would not only be costly, but it would be fraught with equity issues.

Modifications to the extended benefits program is something else that is before this committee and upon which you asked us to remark. H.R. 3863, which has been introduced in the House by Mr. Stark and Mr. Pease, would provide a greatly expanded program of extended benefits to replace both the permanent Federal-State Unemployment Compensation Act and the temporary Federal Supplemental Compensation Program, which expires next March.

Proposals as sweeping as H.R. 3863 cannot be viewed in isolation from their effects on the basic system that has worked so well for the past 50 years. Even if we ignore their substantial budgetary implications, changes as sweeping as these have the potential to divert the system from its basic mission of assisting workers through temporary periods of unemployment.

Such changes will call into question the basic Federal-State structure, the current financing mechanisms, and the work-based character of this program. In my full statement, Mr. Chairman, we discuss more specific concerns with H.R. 3863.

This concludes my remarks, and we will be pleased to answer your questions, sir.

[The prepared statement follows:]

STATEMENT OF HON. PATRICK J. O'KEEFE, DEPUTY ASSISTANT SECRETARY FOR EMPLOYMENT AND TRAINING, DEPARTMENT OF LABOR

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to review with you the progress that has been made in the Federal-State unemployment compensation (UC) program in the past three years. This hearing also presents us with the opportunity to begin identifying and assessing the issues that will confront this system during the rest of this decade.

Next year, 1985, marks the fiftieth anniversary of the Federal-State unemployment compensation system. By any standard, this program has to be judged a success. It has provided literally millions of American workers with the temporary income support that they have needed during brief periods of unemployment. In meeting the temporary income needs of the unemployed, thereby helping to maintain purchasing power and stabilizing the economy, this system has contributed significantly to the unequalled growth of jobs and prosperity in this nation.

As originally designed, that is as a self-financed system designed to provide temporary support to workers experiencing short-term periods of unemployment between jobs, the unemployment compensation system worked well. Over its almost five decades, however, our economy changed. During that period, some policy changes were also adopted—at both the Federal and State levels—which did not always adhere to the system's original principles or did not fully reflect the changes that had occurred in the economy. In this context, the Administration and the Congress have, over the last three years, reviewed the basic structure of the system and made significant improvement in it.

Beginning with recommendations in President Reagan's first Budget Message in early 1981, working together with the Congress, we have made the changes that were needed to strengthen the solvency of both Federal and State unemployment funds, thereby helping to assure that resources will be adequate to pay the benefits of workers who may need them in the future. We have worked to eradicate fraud and abuse, and have sought to restore public confidence in the financial and administrative integrity of this system. We have reformed and improved the permanent Federal-State system of Extended Benefits; rationalized the payment of benefits to ex-servicemen and women, and initiated in September 1982 the Federally-funded temporary program of Federal Supplemental Compensation that is now in place through March 1985. We have revamped the Trade Adjustment Assistance program, emphasizing job training and meaningful search for new jobs.

System solvency

Intended to be self-financing over the course of the economic cycle, perhaps the largest threat to the UC system over the past decade has been deterioration in its solvency. Beginning with the recession in early 1980 through late 1982, the UC system was confronted with an extended period of high joblessness and limited job growth. It is testimony to the basic strength of the system that, through this period, benefits were paid timely and efficiently to literally millions of unemployed individuals. This period also revealed structural shortcomings which, if unattended, had the potential of jeopardizing the system and the benefits it provided.

Perhaps the single largest problem in the system was the erosion of its basic solvency—revealing the extent to which the relationship between benefits and revenues had deteriorated. In CY 1981, outstanding Federal loans to States totalled $6.3 billion; and the prospects were bleak: Rather than achieving projected loan repayments and a return to solvency, significant further borrowings were in store.

In response to this, Federal policy was revised to return the system to the equilibrium that is essential to attainment of its purpose. A major step in this was the imposition of interest charges on new Federal loans to States. To minimize sharp and accelerating increases in unemployment taxes resulting from efforts to repay overdue Federal loans, however, the law also provides for a cap on repayments.

While carefully maintaining the Federal-State strucuture of the system and while protecting the flexibility of that system to respond to changing economic conditions, the interest on Federal loans to States has returned to the system the discipline necessary to strike the balance between benefits and revenues that is essential to its responsible administration.

The States responded quickly and aggressively to these changes in Federal policy; and the State-enacted changes have occurred both on the benefit and revenue sides of the program. On the benefit side, State actions include modifications in the computation of benefit amounts, temporary caps on benefit levels, changes in qualifying requirements and other similar actions. In the raising of revenues, 30 States have taxable wage bases that exceed the Federal standard of $7,000, some States have completely revised their tax rate structures, while others made significant (but less sweeping) revisions in their tax codes.

The effects of these changes can be seen on the improvement in overall solvency. From a peak of $14.0 billion in March, 1984, outstanding Federal loans to States in July, 1984, were $10.6 billion. Although this improvement is, in significant part, attributable to the robust economic recovery of the past two years, the Federal and State policy shifts are a major contributor. As importantly, the long-term consequence of these changes is the restoration of solvency to the UC system, thereby assuring the availability of benefits for those workers who become temporarily unemployed in the future.

Other aspects of the UC system have been modified over the past few years in ways that have strengthened the overall system. Let me highlight these:

Extended benefits (EB)

A relatively recent feature of the UC system, the EB program is intended to respond to periods of high and protracted unemployment. In 1981, this program was revised to increase its responsiveness to State-level labor market conditions. In addition, the program's eligibility requirements were modified.

The interaction of these changes with the most vibrant economic recovery in the post-war period, has had such an impact that only one State, Puerto Rico, is currently triggered-on.

Federal supplemental compensation

Beginning in September 1982, a new Federally-funded program of supplemental benefits for those who have exhausted any other benefit rights, has been provided. The duration of benefits ranges from 8 to 14 weeks, depending on the length and level of prior benefit payments in each State. This program is now in place and had been extended until March 31, 1985.

Program administration

As a result of the policy modification noted above, and others, the UC system is once again on a solid foundation. We recognize, however, that in a system as large and diverse as this, efforts to improve its administration must be continuous. If we are to achieve our objectives and to retain the confidence of the public, we must continue to make every effort to assure that resources are managed efficiently and responsibly.

Through the Random Audit Program, through the special studies of the DOL Inspector General and ETA, we have identified weaknesses in the UC system on both the benefit and revenue sides.

This year, in response to these findings, we embarked on a new initiative that will improve system efficiency and integrity: The Quality Control (QC) System. Focusing on both benefits and revenues, QC will provide UI administrators with the data necessary to: Identify losses to the system both in benefits inappropriately paid and revenues due, but uncollected; diagnose the causes of these losses; formulate and implement corrective actions; and assess the effectiveness of these corrective actions (and modify them as necessary).

The design of the QC program has been underway for some time. We soon will submit to the Committee a description of our proposed approach. As we proceed, we will consult with you, the States and others interested in the overall UC program. Consistent with QC programs in other income transfer programs, the key features of our approach are likely to include:

(1) An analysis by the States of a statistically valid sample of program workload;
(2) The use by the States of standard definitions and procedures;
(3) Federal validation of State QC results;
(4) Corrective action by the States based on analysis of QC data;
(5) Oversight mechanisms to ensure system integrity; and
(6) Tracking of QC outcomes and assessments of impact.

Summary

Mr. Chairman, this completes my report on our performance for the past three years. Over the past 3 years, we have adopted a series of productive changes, especially in financing, that should improve both the financing and the administration of the entire Federal-State system of unemployment compensation. State legislatures and State unemployment compensation agencies have been faced with and met the need for major statutory and procedural changes. Many of these changes are just getting underway, most notably the changes in financing and the increase in State tax maximum rates to at least 5.4 percent. The economic recovery that is now actively underway, showing a marked decline in unemployment as well as many other positive indicators, will further ameliorate these problems. I believe that it is now essential that we permit these measures to work and assess the impact of the changes over time. Should any problems arise, we will return to Congress with our proposed solutions and work together with you in refining and enacting them.

LEGISLATIVE PROPOSALS

Mr. Chairman, a comprehensive review of the UC system such as you have undertaken is to be lauded. Developing a foundation of knowledge for future policy proposals will give all of us a firm base upon which we can assess the adequacy of the current system and proposals to modify it. It is important, however, that we not

ignore the basic principles that undergrid this system and assess the extent to which these principles are advanced or inhibited by proposed changes.

The characteristics of the unemployment insurance system that define it and distinguish it from other income transfers are straightforward: It is a self-financed program—established under Federal and State law—for income maintenance during temporary periods of involuntary unemployment due to lack of work, which provides eligible workers with partial compensation for wage loss. In carrying out these principles, UC helps to maintain purchasing power and to stabilize the economy. Further, it diminishes the dispersal of the employer's trained work force, the sacrifice of skills, and breakdown of labor standards during temporary unemployment. if we are to retain the unique character of this self-financed, work-based income transfer, we need to assess proposed changes in light of these principles. Let me turn now to some of these proposals.

Sub-State triggers

Mr. Chairman, you requested that we discuss the feasibility of using substate areas for payment of UI benefits.

Because the issue of providing UI benefits on the basis of local areas has been raised frequently in recent years, Congress, in Public Law 98–135, directed that the Secretary of Labor submit a report on the feasibility of using substate areas in the UI program. Such a report was made to Congress earlier this year.

It is the conclusion of the Department of Labor that is not currently feasible to implement a program using areas smaller than a State that follows generally accepted principles upon which current UI programs are based and which meet reasonable criteria of accuracy and timeliness.

There are informational items currently in place which could be used in designing a program of sorts. However, any currently conceivable combination of these factors would be both difficult and costly to administer, would be open to potential inaccuracy, overpayment and fraud, and would raise serious equity issues among both claimants and employers.

A few examples are illustrative of these problems. The full spectrum is found in the "Report to the Congress," dated May 1984. Additional copies will be made available to any member of the subcommittee who wishes one.

Some concerns are the following:

(1) Data are not currently available on unemployment by county of work. Most employers report employment by county but under certain circumstances where employers have multi-county establishments they may report all employment as if it were in a single county.

(2) Total unemployment rate (TUR) is, except in 10 largest States and two metropolitan areas, calculated by a mechanism using a series of computations less statistically sound than those for the large units.

(3) Many States do not yet have a proper computerized data base sufficient to administer area triggers and would require both extensive time and significant resources to design and acquire this capacity.

(4) Current areas in use by the Federal Government are designed for specific discrete purposes, but do not lend themselves to adaptation for this purpose without extensive changes or modifications of data and methodology of development. These include: Metropolitan Statistical Areas (MSAS); Bureau of Economic Analysis (BEA) Economic Areas; and Labor Market Areas (LMAs).

(5) Interstate agreements currently allow for the payment of UI benefits across State lines. However, in an area program, the problem of determining eligibility for claimants who have moved would be multiplied many times over.

In sum, Mr. Chairman, although theoretically possible, a system of substate triggers faces serious design and implementation problems, would be costly, and fraught with equity issues.

Modifications to extended benefits

As you have requested, I will now turn to a consideration of H.R. 3863, introduced by Mr. Stark and Mr. Pease, and its Senate counterpart, S. 1784, whose principal sponsors are Senators Byrd and Heinz. These bills would provide a greatly expanded program of extended benefits to replace both the permanent Federal-State Extended Unemployment Compensation Act and the temporary Federal Supplemental Compensation program, which expires as of March 31, 1985.

I will comment on the various components of this bill, but let me say that proposals as sweeping as H.R. 3863 cannot be viewed in isolation from their effects on the basic system that has worked so well for the past 50 years. Even if we ignore their substantial budgetary implications, changes as sweeping as this have the potential

to divert the system from its basic mission of assisting workers through temporary periods of unemployment. Such changes will call into question the basic Federal/State structure, the current financing mechanisms, and the work-based character of the program.

H.R. 3863 would establish a permanent extended benefit program, under State triggers, that would pay benefits for as long as 30 weeks, which, when added to 26 weeks of regular benefits, provide for as many as 56 weeks of benefits on a sliding schedule of Federal reimbursement ranging from 50 percent (as in the present law) to 80 percent. In addition, five additional weeks of extended benefits, funded 100 percent by the Federal Government, would be payable in all States, regardless of State unemployment rates, whenever a "high unemployment period occurred nationally. Such a high unemployment period would trigger "on" whenever the national seasonally adjusted total rate of unemployment (TUR) equaled or exceeded 10 percent for a period of 13 consecutive weeks. In all, this would provide a maximum total potential duration of benefits for up to 61 weeks. At the present time benefits under permanent law are generally payable under State UI law for up to 26 weeks; under the Federal-State Extended Benefit program, for up to 13 weeks, for a combined maximum of 39 weeks.

Let me turn to the specifics of our concerns:

1. Unemployment periods—Triggers and duration

a. The bill provides as the basic trigger the Adjusted Insured Unemployment rate—which is a percentage arrived at by dividing the average weekly number of individuals filing claims for regular unemployment compensation by the average monthly covered employment (for the first 4 of the most recent 6 calendar quarters). The rate would be seasonally adjusted in the same manner as the total unemployment rate (TUR) is adjusted by the Bureau of Labor Statistics (BLS).

Comment: It is doubtful that the IUR for each of the 50 states can be adequately seasonally adjusted. Seasonal adjustment is a process which attempts to estimate and remove the effects of "normal" or "usual" seasonal patterns and variations. Such adjustment makes it easier to observe the cyclical and other nonseasonal movements in economic time series. Not all time series lend themselves to seasonal adjustment however, and certain statistical tests have to be met before data can be seasonally adjusted. In the case of many of the smaller states it is not clear that these tests would be met.

b. The bill provides that the duration of extended benefits under State triggers provided by the bill would range from 30 weeks where the IUR is 7 percent, down to 10 weeks where the IUR is at least 4 percent, with no EB payable where the IUR is less than 4 percent. An additional 5 weeks of benefits, federally funded, would be payable in all States if the national seasonally adjusted total rate of unemployment (TUR) equals or exceeds 10 percent for a 13 week moving average, regardless of State level of unemployment.

Comment: The availability of EB payments for such extended periods of time would act as a considerable disincentive for the type of effective job search currently required for EB. Weakening the job search requirements not only lessens the potential of altering the character of the UC program, it also forestalls needed adjustments by individuals—adjustments often involving occupational, industrial or geographic mobility. This proposal would, obviously, increase costs greatly, necessitating significant increases in both State and Federal taxes.

c. The bill provides as an alternative determination of benefit duration a period based upon the total unemployment rate (TUR) for each State. H.R. 3863 would provide an alternative to the use of insured unemployment rate triggers—the use of total unemployment rates.

Comment: The use of factors directly related to the unemployment compensation program as the basis for payment or nonpayment of benefits has had general acceptance at both the Federal and State levels, in part because the data can be reported promptly and checked readily. Thus we have used the IUR as the basis for calculating triggers, because it is a factor directly related to the unemployment insurance system and it is based on an actual count. As I have commented earlier, while we can support the accuracy of TURs established for large States, we have some concerns with respect to the reliability in smaller States.

2. Payments (reimbursements to States)

Reimbursements to States for payment of EB would be under the following schedule:

Seven percent IUR (12 percent TUR)—30 weeks EB: 80 percent reimbursement.
Six percent IUR (11 percent TUR)—25 weeks EB: 70 percent reimbursement.

Five percent IUR (10 percent TUR)—20 weeks EB: 60 percent reimbursement.
Four percent (9 percent TUR)—10 weeks EB: 50 percent reimbursement.
National TUR of 10 percent—5 weeks EB: 100 percent reimbursement.
Comment: The cost of Federal reimbursement would be tremendously increased over the present 50 percent reimbursement.

3. Status of interstate claims under EB

The amount and duration of EB payable to any individual claimant would be based upon the EB status of the liable state—the State in which the claimant's right to benefits was established—and from which the claimant has moved.
Comment: We support the present provisions of both EB and FSC law—benefits are payable for only two weeks when a claimant moves from a liable State which is "on" EB to an agent State in which EB is not payable.

4. Changes in job search provisions

Under both EB and FSC law, benefits are not payable to an individual for any week of unemployment during which the individual fails to actively engage in seeking work. Exclusions from the requirement apply if the individual is engaged in a job training course, or is on jury duty or is hospitalized.
H.R. 3863 would modify the job search requirement by providing that, in accordance with regulations of the Secretary of Labor, the State "may modify the requirements of this clause to take into account any determinations by the State that labor market conditions in the labor market area in which such individual resides, are so depressed that actively seeking work likely will not result in employment".
H.R. 3863 also provides that an individual shall not be eligible for EB: "unless he participates in an intensive one-week job search program administered by the Employment Service, if requested to so paticipate."
Comment: We oppose any such change. It would substitute a one-week job search for the continuous job search that is now required. The average EB claimant enters EB after having been unemployed for at least half a year. We do not consider it to be unreasonable that such claimants be required to be continuously "actively engaged in seeking work" as under present law. In any community, only a small proportion of the job openings are listed with the Employment Service. Many more jobs are found as a result of information from other sources, such as newspaper ads, openings posted in personnel offices, from union halls, and from friends and neighbors. This has been verified in many studies of hiring patterns. To change the present law would create a strong disincentive to a realistic search for work.
Mr. Chairman, this completes my formal statement.

Chairman FORD. Thank you very much, Mr. O'Keefe. I guess you noticed the witness list, and there are several who will be testifying after you, Mr. O'Keefe, and two Governors, one representing the Governors' Association, and one is testifying independently of the Governors' Association, and we all know that we are in fact dealing with a very critical issue, one that we have worked on together in the past, one that we have tried to address in the past, and Members of both the House and the Senate have all introduced legislation to try to correct some of the problems as they relate to the Federal Supplemental Compensation Program.

The August unemployment rate reflected 7.5 percent or 8.5 million people who are unemployed. About 1.5 million have been out of work for longer than the 27 weeks. In July, only 31 percent of the unemployed received unemployment benefits.

The question I have for you, Mr. Secretary, is the system working?

Mr. O'KEEFE. My assessment, Mr. Chairman, is, the system is doing what we have asked it to do for the past 50 years. It is meeting those short-run income needs of workers who become involuntarily unemployed.

Chairman FORD. I did not mean whether we were staying within the guidelines of the legislation passed by the Congress. I am saying, is the system working as it relates to those who are suffer-

ing from the unemployment problems, and as it relates to the jobless benefits under the Federal Supplemental Compensation Program and other unemployment compensation benefits.

Mr. O'KEEFE. Within the policy that we are talking about, it is working, but there certainly, as you are pointing out, are other segments of the population whose training and employment needs go beyond what we offer in the basic unemployment compensation system.

When we talk about individuals who have been unemployed for 6 months or longer, and there are, as you say, 1.5 million individuals in that case in the most recent month for which we have data, we are really talking about people who have gone beyond being temporarily unemployed.

We have to look at their needs and their ability to compete for the job openings that exist in this country, because at the very time that we have that many people standing there looking for work, we have seen one of the most robust recoveries in the past 30 or 40 years.

We have added 5.8 million jobs to this economy since the trough of the recession in November 1982, and so we cannot ignore that progress is being made there on the economic front, and at the same time there are many workers in this country who will need to refurbish their skills.

And that is why the administration brought forward and Congress enacted the Job Training Partnership Act Program for dislocated workers, which is intended to provide training and employment services for those who are unlikely to return to their former employment, to make them competitive for the job openings that are opening up in this economy, and to move them from a situation in which they have to rely upon a passive income transfer to a point where they can achieve true economic independence by earning a wage that will pay for their families' well-being.

Chairman FORD. We are still talking about 8.5 million people who are displaced in the work force. About a million and a half have been out of work longer than the 27 weeks. My concern is, why is the percentage of unemployed receiving benefits, why is that number so low? We are only talking about 31 percent. What is it that we ought to be doing to make those significant changes in the program itself?

I mean, we are not responding to a large number of unemployed citizens in this country. What is it that we should be doing as a subcommittee, with support hopefully from the administration, in trying to address the critical problem?

Mr. O'KEEFE. I think the No. 1 thing that we all need to do, Mr. Chairman, is to assure that the recovery which has been under way for 2 years continues, that the number of jobs which are created in this country continues to grow. Without that, no matter what we try to do in the unemployment compensation system or in our other training and employment programs, we are really going to be putting a Band-Aid on major problems.

When you talk about the fact that only one-third or 31 percent of all of the currently unemployed are covered, I think what we have to recognize is that there are reasons for that. Not all of those individuals had prior work experiences.

The composition of our labor force has been changing dramatically over the past 10 years. We see many new entrants, both youth and females, and reentering females coming in who have not had a recent work history, and therefore do not meet the eligibility criteria in the program.

We have also looked at the need in the program to emphasize not only the work attachment but the need for people to look for work. This is not simply a passive income transfer. It distinguishes itself from other income transfers because it is work related. It is paid for by employer taxes because these are individuals temporarily between jobs.

It is a way in which we make our labor markets operate more efficiently. I think when you asked me, is it working, yes, it is working. It is meeting the objectives that we have set out for it. We have other programs, the Job Training Partnership Act being key among those, which are preparing those who are not competitive at the present time for job openings that exist in the economy.

Chairman FORD. Well, that number is still relatively low. Still we are talking about 31 percent. And as chairman of the subcommittee, and I am sure each member of this committee and in this Congress as well would love to see those who have been displaced out of the work force returned back to the work force.

But we happen to be speaking of 8.5 million people who are not in that work force, and I am almost certain that all of them are seeking or looking to go back into the work force.

You said on page 5, and I guess I am going by the draft of your statement, you talked about the extended benefits as being intended to respond to the periods of high and protracted unemployment, and went on to say in 1981 this program was revised and increased its responsiveness to State level labor market conditions.

The present EB program is not paying benefits in any States, and I think Puerto Rico is supposed to trigger on in the coming weeks. We have not seen any extended benefits in any of the 50 States. We are in fact noticing that there are several States with unemployment going as high as 9 to 10 percentage points, and without the extended benefits program, you made mention of it in your statement here, but we have not seen it trigger on to respond to some of the high unemployment problems certain States are faced with.

Mr. O'KEEFE. Mr. Chairman, when you look back over the past year, in terms of the way in which the economy has grown, one of the figures that really strikes me when I look at the Unemployment Compensation Program is that a year ago there were approximately 3½ million individuals collecting unemployment compensation under one of the several programs.

The most recent month for which we have data, at the end of August, there were about 2½ million individuals collecting under those same programs. What that reflects is the extent to which we have had this dramatic recovery over the past 12 months, and the fact that the extended benefits program is not triggered on right now is not surprising.

We are experiencing dynamic growth in this country. If the program was going to be off as an extended benefits program, this is the very time that you would expect it.

Chairman FORD. Have you seen any State or States that the EB program should trigger on?

Mr. O'KEEFE. I see several States, Mr. Chairman, in which the structural changes that are going on in that State's economy require something more than just a continuation of the transfer programs. We need to look at those individuals' situations in what is euphemistically referred to today as the rust belt.

There are many jobs which have disappeared in those States which are not going to come back, and we need to help those individual workers retool. We need to get them into training programs, and we need to provide them the employment and the relocation services that are going to move them into other industries, because those previous jobs are not there.

An extended benefits program is not going to address that kind of structural change, and that kind of structural change is what we confront for the remainder of this century.

Chairman FORD. Well, I do not think the administration is addressing that problem in trying to create those training programs that are needed that you make mention of. All of the things that you have said, I can concur with you, but I think the administration should propose some of those items to the Congress and let us move to enact some legislation that would provide for those training programs and placing people back within the job market itself.

Mr. O'KEEFE. Mr. Chairman, in title III of the Job Training Partnership Act today we have $223 million this fiscal year and about $425 million in the system generally that is available for the kind of retraining I am talking about. Prior to this administration, there was no such program.

We have $425 million today committed for retraining. That is testimony to the very thing that I am saying.

Mr. STARK. Mr. Chairman, if you would yield, I wonder if the witness has ever heard of CETA. Perhaps he is too inexperienced. CETA worked. And the administration's program does not.

Mr. O'KEEFE. Mr. Stark, I have heard about CETA. I think this is probably not the place where you and I want to debate whether or not it worked.

Mr. STARK. I am ready to debate you any time, any place, about this administration's travesty in ignoring the underemployed and unemployed in this country, young man. So, you choose the terms, and I will debate you. Right now is as good a time as any.

Mr. O'KEEFE. Well, sir, we could debate right now whether CETA had a retraining program for the structurally unemployed. The fact of the matter is, it did not, sir. Title III of JTPA is unique. There was no similar program under CETA. The record speaks to that.

Mr. STARK. I beg to differ with you. There were job training programs under CETA that trained under and unemployed and unskilled people for existing jobs, and it did an excellent job. Some of them still remain in place today doing a good job.

Mr. O'KEEFE. Mr. Stark, I will submit for the record the title II-C program statistics under CETA, and if you want to claim that that was a successful retraining program relative to title III of JTPA, sir, I will let the record speak for itself.

[The following was subsequently submitted:]

In fiscal year 1982, there were about 5,900 participants enrolled in CETA Title II-C Upgrading and Retraining programs. This is the last fiscal year CETA was in full operation.

Enrollment data for the nine-month JTPA transition year (October 1983–June 1984) show that approximately 96,100 participants were enrolled in JTPA Title III Dislocated Workers programs during that period.

Chairman FORD. Mr. O'Keefe, what should be the States' obligation, and where should the Federal Government step in as it relates to these unemployment benefits for the unemployed?

I mean, we have talked about all of the training programs and the commitment from this administration and the things that you all are trying to do in the Department of Labor, but the fact still remains that 8.5 million people are out of work in this country, and only 31 percent in the month of August or July received unemployment or Federal supplemental benefits.

What can we do here on the subcommittee level to draft some legislation to meet the March 31 deadline in 1985 for the expiration of the Federal Supplemental Program? What can we do?

Can you tell us what the States' obligations should be, and where the Federal Government should step in, or what our role should be in these distressed economic times, and knowing that 8½ million people are unemployed?

Should we take the initiative here from the Federal level, knowing that States and other municipalities are in fact having their problems because of this economy?

I am not shifting the blame to the Reagan administration or anyone else at this point, but what should we do to respond to the 8½ million people who are unemployed? What should be the Federal Government's role?

Should we in fact pick up an additional cost factor that would be involved to give the States some relief? Should we in fact respond to these unemployed people in a fashion that they will in fact receive benefits and not a handout type of program but will give them the type of stipend that will be needed in order to carry them through that period of time until such time that they can be trained or replaced in another job?

Mr. O'KEEFE. That, Mr. Chairman, is a very involved question, and let me try to take it a piece at a time. I think when you look back over the record of this committee and the way in which you brought forth proposals to the Congress, what you have been able to do is to take the strength of the Federal-State system, almost an initial demonstration of federalism, if you will, as it was originally enacted in the unemployment compensation system, and used that to continue through a very severe recession the payment of benefits throughout.

Those benefits were paid timely to those who needed them, and as we start to look forward to March 1985, when FSC is scheduled to expire, I think what we have to recognize is that that was crafted as a temporary program in response to the circumstances that were before us.

And I think, Mr. Chairman, as you start with this hearing to begin to lay the foundations, looking forward to March 1985, as to what, if any, supplemental benefit program is going to be in place, we should also take advantage of the next 3 or 4 months' worth of

experience, and see how the economy progresses, and see whether we have a more uniform rate of growth as we think we are going to over the next 3 to 4 months, and so that that unemployment rate continues down, and then assess where we are.

I think to ask me right now what specific proposals would we bring forward is to deny us the opportunity for another 3 or 4 months' worth of experience and an assessment of how the econony is going to continue to grow.

Chairman FORD. Well, I think the question was, what should be the Federal Government's role in providing protection for the unemployed, insurance protection. I think basically we want to know whether or not we, and I am speaking of we as the Federal Government, should come in and be more active as it relates to the Federal Supplemental Program in reforming the whole unemployment compensation.

Mr. O'KEEFE. When you look at several of the options that we have given over in policy to the States, such things as work sharing, places where we have not even put in Federal legislation, inducements for them to increase training—if you look at States like California and Delaware, they are already displaying a policy innovation in those States to deal with this problem.

And perhaps I did not articulate it clearly enough before. I think when you ask about the Federal role, and you look back over the history of the last 50 years, the balance that has been struck, the partnership that exists there, with the Federal Government establishing the basic parameters of the program, with the States establishing the policy for the labor markets that operate within their borders, that has been a successful program.

We have met the needs, the temporary income needs of those who have been briefly thrown out of work, using the unemployment compensation system, and we should not seek to jeopardize that, because it is one of the best in the world.

Chairman FORD. Well, you know, you mentioned earlier that some 5-plus-million jobs have been added to the work force, but I am still reminded of the fact that the unemployment rate in 1981 when President Reagan took office is the same as it is today. I do not know of any significant steps that this administration has made in responding to the job market or the workplace itself.

I am still concerned about the very first question that I posed to you earlier—what should we do to the Extended Benefit Program or the Federal Supplemental Program knowing that there are only 31 percent of the unemployed receiving unemployment compensation benefits in the month of July.

And we are concerned about that, and I think when we take a look at the expiration date of March 31, that we want to come back with legislation in this Congress that will respond to the needs of those who are unemployed, and I certainly will support this administration in any legislation that would be forthcoming to respond to those unemployed people through training programs or come back to revise the CETA Program or any other program that the administration would like to have.

But I think it is difficult for us here in this Congress, and as chairman of this subcommittee, to here have the Secretary come down to the Hill to say to us everything is just fine, and that we

are going to continue to wait 3 or 4 months more, and we are going to see whether these people are going to be placed back into the jobs, into the work force itself.

I mean, I have heard this as chairman of this subcommittee for 3 years under this administration, and I have not seen any significant changes at all, and hopefully there will be some forthcoming, but I still think that we, from the legislative perspective, must play a major role in trying to address the real concerns and problems of the unemployed in this country.

One final question, Mr. Secretary. The chairman of the full Committee, Mr. Rostenkowski, has a bill, H.R. 6112, and I am not sure whether you are familiar with the bill that he has introduced, but I would just like to get you on record to see whether or not this administration will be in support of the bill that has been introduced by the chairman of the full committee, or whether you will have opposition to that legislation.

Mr. O'KEEFE. Mr. Chairman, Secretary Donovan has spoken with Governor Thompson. We have also been in touch with Senator Percy, and certainly Congressman Michel's office, and we have discussed this with them. As we understand this proposal, I do not think the administration is going to have any problems with it whatsoever.

Chairman FORD. Thank you very much.

Mr. Stark.

Mr. STARK. No questions, Mr. Chairman.

Chairman FORD. Mr. Pease.

Mr. PEASE. Thank you very much, Mr. Chairman.

Mr. O'Keefe, I guess I want to start by basically repeating the question that Mr. Ford asked in a different way, and that is, has the administration as yet thought of what it will recommend to the Congress next March when this program expires?

Mr. O'KEEFE. Mr. Pease, the preparation of the fiscal year 1986 budget and the legislative calendar that will match that has been under way within the Department since approximately the middle of July. We are in the process now of submitting to the Office of Management and Budget what will be the Department's proposals for the fiscal year 1986 budget and legislative changes.

So, we are in the process right now of considering the options right across the board relating to labor legislation, training and employment initiatives, unemployment compensation, but I am not in a position at the present time to say to you that the administration has concluded its analysis, that we have a set of proposals that we will bring forward, or to say to you other than that they will be included in the next presentation of the budget by the President to the Congress in January.

That is when we will be able to bring forward our proposal.

Mr. PEASE. Is there any possibility that you will recommend that the FSC program not be continued at all beyond next March 31?

Mr. O'KEEFE. As I said, Mr. Pease, we have not come to closure on that. I think the range of options that is available to us at the present time is quite wide, and with respect to the FSC continuation, a final decision has not been made one way or the other.

Mr. PEASE. You outlined in your testimony what has been done in the last 3 years. You seem to note those changes with some sat-

isfaction. You do include the FSC program. Is my memory correct that the department opposed the FSC program and recommended before the subcommittee that we not continue it on at least two different occasions in the last 2 years?

Mr. O'KEEFE. I think there was substantial give and take, Mr. Pease, but I am reminded that the 18-month extension that is currently in place was proposed by the department.

Mr. PEASE. Not originally. The 18-month extension was proposed by the department in lieu of a 6-month extension proposed by this committee, so that the administration could get past the November 6 election before coming up with a policy on FSC. But the testimony from the department was not to extend FSC on two different occasions that I recall in the last 2 years.

Were you here at that time, sir? Were you with the department?

Mr. O'KEEFE. I was with the department, but I wasn't in my present position at that time.

Mr. PEASE. What position were you in then?

Mr. O'KEEFE. I have had several. I was probably heading up the task force that was implementing the Job Training Partnership Act at that time.

Mr. PEASE. I see. What about the Extended Benefits Program? Is there any possibility at all that the administration will recommend next March that the Extended Benefits Program be terminated?

Mr. O'KEEFE. As I said, we have not come to final closure, but I cannot think of any circumstances under which we would be proposing that.

Mr. PEASE. The reason I ask that is that you mentioned in your response to Mr. Ford's decisions to be made next March. You said, if I remember you correctly, that we ought to consider what, if any, EB program would be in place after next March.

Mr. O'KEEFE. Mr. Pease, I either meant FSC and misspoke or was speaking about whether in fact things—was that in response to the chairman's question about what was triggered on and not triggered in place?

Mr. PEASE. I am not sure what the question was.

Mr. O'Keefe. I think I misspoke if I said EB. I probably meant FSC, since that does expire next March.

Mr. PEASE. I am certainly intrigued by your testimony where you talk about the steps that were taken in the last couple of years, particularly in response to the debt of the States. You say that while carefully maintaining the Federal-State structure of the system, and while protecting the flexibility of that system to respond to changing economic conditions, the interest on Federal loans to States has returned to the system the discipline necessary to strike the balance between benefits and revenues that is essential to a responsible administration. Then you say the States responded quickly and aggressively to these changes in Federal policy.

That sort of sounds good. States responded quickly and aggressively. As I read your report there, how they responded quickly and aggressively was to cut benefits and raise taxes. Is that your understanding of what the States did?

Mr. O'KEEFE. Mr. Pease, as I understand it, when a public budget is in a deficit circumstance, you have two ways to correct that. You

either raise revenues or cut back on the benefits, and I think that is what the States did. Yes, sir.

Mr. PEASE. I am delighted to hear you say that. You are the first member of this administration in a long time who has suggested that one way to eliminate the Federal deficit is to raise revenues as well as cut spending. We may have a breakthrough here.

Mr. O'KEEFE. I would not go too far with that. [General laughter.]

I think when we, as the President has said, have taken every measure to reduce spending, we then may as a last resort look at the revenue side of the ledger.

Mr. PEASE. So you are telling me that the administration is planning to wring $180 billion out of the deficit by cutting spending before you begin to think about raising revenue. Is that correct?

Mr. O'KEEFE. I think, Mr. Pease, the President is adequately on record about the macro policies and the budgetary policies of the administration.

Mr. PEASE. I think you are too modest. You have done very well this morning in stating the economic theories, and probably know more about it than the President, but I would not be the person to say that.

OK, what about the long-term unemployed? In my area of Ohio the unemployment rate is 10.6 percent. It just dropped below 11 percent for the first time in the last 2½ years. Do you consider that to be an unacceptably high unemployment rate?

Mr. O'KEEFE. I think all of us, Mr. Pease, find those kinds of unemployment rates intolerable. They are not the kinds of rates you find acceptable when you consider the numbers of individual lives that are caught up in that, and the disruption that is going on not only for the individuals who are unemployed, but their families.

They are numbers that do cause us a lot of pain. And I think what we have to look at is, how did we get there and how do we rectify those situations. And when we look at those individuals, and we realize that they are unemployed, and we ask where they came unemployed from, we recognize that many of them are displaced from industries that do not respond in a timely way to changes in the global economy.

We look at industries that sought to continue to perpetuate themselves without advancing. Perhaps very often we forget that it was as much management decisions as anything else that got those companies to where they are. But for those workers right now, the need is to look for new employment, and in your area that unemployment rate is very, very high. It is not something that any of us can be comfortable with.

Mr. PEASE. Many of these workers have been unemployed now for going on 3 years. Many of them, 4,000, to be exact, formerly held employment in a large steel mill in the district, and they have exhausted all unemployment benefits. Many of them have worked steadily without layoff for 15, 20, 25 years for the same employer, and now they are out of a job, unlikely to be called back to that steel mill.

And I am just wondering if you think that there ought to be any responsibility at all of the Federal Government in trying to assist the longer term unemployed, recognizing that the UE program was

set up originally for temporary unemployment. We now are in a situation where we have long-term structural unemployment on the part of millions of workers.

Does the administration envision a program that would address itself to those kinds of workers at all?

Mr. O'KEEFE. Mr. Pease, as I was remarking earlier, we have in place the title III program of the Job Training Partnership Act. It is a relatively new program. The Congress advanced funding prior to the original startup date of October 1, 1983. In part it was because of the kinds of circumstances that you are remarking upon now.

We observed in 1982 an increasing amount of structural displacement was going on, so the simple answer to your question is, yes, we do believe that a retraining program supported at the national level makes sense.

But let me go on beyond that. In some industries, and let us use autos as an example, we see already the movement in the collective bargaining situation where management and labor are also recognizing the importance of investing in human capital.

We are talking here not about an unemployment compensation issue. We are talking about an economy that is undergoing dramatic change, and each of us is going to change careers several times over the course of our lives. We have to start thinking about ourselves in terms of refurbishing human capital, no longer just walking into a place and working for 15 and 20 years.

So, yes, sir. I think the short answer is, we need to do that. We need to look at whether or not the JTPA program makes the kind of difference that we believe it will. We do not even have a full year's experience yet, but as I say, we have got about $400 million floating in that system going to setting up training programs for these individuals who have been dislocated and trying to move them into new jobs.

Mr. PEASE. Well, the jury is still out on the Job Training Partnership Act. I note from your answer previously that you have been involved in the administration of that program since early on.

Frankly, some of the workers in my area find that they would like to go back for retraining, but they have families, and there is no provision at all for them to sustain their families or pay the rent or buy food while the program is going on.

Speaking of steel workers and auto workers, let me ask you about the trade adjustment assistance program, which is really a precursor of the Job Training Partnership Act, and has provided job training and job search and job relocation for a lot of laid off structurally unemployed steel workers and auto workers and rubber workers and others.

That program comes up for reauthorization next year. If this administration is returned to office, will you again oppose that program?

Mr. O'KEEFE. As you and I have discussed once before in a different subcommittee meeting, what we have recommended in the past is taking the training portion of the trade readjustment program and merging that with the title III retraining program that we have under JTPA. Essentially, that would not alter much the type of training that is being provided or the individuals who are target-

ed. It would probably make the program somewhat more efficient administratively because we would have them operating under one umbrella.

With respect to the benefit side of the Trade Act Program, while we have not discussed that, I would have to give you the same qualifiers again as with respect to our 1986 proposals. I still think there is a need to question whether we need that program, given the fact that the regular unemployment compensation program is pretty much providing the same level of benefits, and right now for the same period of time in many States.

Mr. PEASE. I think if you will check that out you will find you just made an incorrect statement, that the TAA program provides a maximum of 52 weeks of benefits at the level of unemployment compensation in each State, and the number of weeks of unemployment compensation collected is deducted from the 52 weeks.

Since no State in the Nation is currently triggered onto extended benefits, I suspect that most workers, unemployed workers who are not eligible for TAA collect considerably fewer than 52 weeks, and that the TAA program thus is a valuable supplement to the compensation of unemployed workers in those industries.

Mr. O'KEEFE. Mr. Pease, I will let you take back the compliment earlier, because you are correct in correcting me. I misspoke.

Mr. PEASE. And another thing I would point out, because I know you are interested in improving the JTPA, is that a feature of the TAA is the workers who are in training can collect another 26 weeks in addition to the 52 weeks, which allows them to both go to school and feed their families, and it is nice that they do not have to make a choice between those two.

Mr. O'KEEFE. If you will allow me, sir, in JTPA up to 30 percent of the money that is available in the program can be used to pay for supportive services, including needs-based payments, so you do have that availability in the program.

We wanted, of course, to retain the training emphasis that is there, so you do have the opportunity to pay a stipend under JTPA's title III program.

Mr. PEASE. I think the stipends are in the neighborhood of $15, at least in our area, $15 or $25 a week for books and transportation. It would not be sufficient by any stretch of the imagination to help put bread and butter on the table, and to pay the rent.

Well, thank you.

Mr. STARK. Will the gentleman yield?

Mr. PEASE. I would yield.

Mr. STARK. I was going to inquire of the gentleman from Ohio, how long does this JTPA funding spread over, what period of time?

Mr. PEASE. I am not sure.

Mr. STARK. Is that a 3-year funding figure, or 5, the $400 million?

Mr. O'KEEFE. Mr. Stark, from the time the money is appropriated it is available to the States for 3 years.

Mr. STARK. And if my arithmetic is correct then, there are slightly more than 8 million unemployed in the country. You are talking about a grand total of $16.67 a year to be magnificiently and munificiently bestowed upon these unemployed workers. How much training can you buy for $16.67 a year?

Mr. O'KEEFE. I do not know of any program where we are suggesting spending only $16 per individual. I am a little bit hard pressed to see how you could come up with that number. There are not 8½ million dislocated workers in this program.

Mr. STARK. But are there not about 8 million unemployed in the country?

Mr. O'KEEFE. That is correct.

Mr. STARK. You are talking about $400 million. Let us just go through it a step at a time. You are talking about spending $400 million in a training program, right, over 3 years?

Mr. O'KEEFE. The JTPA total appropriation figure for this year is $3.8 billion.

Mr. STARK. What about the $400 million? Where does the figure $400 million come from?

Mr. O'KEEFE. That is the title III dislocated workers program. The CBO has estimated how many dislocated workers there might be in the country, and obviously the estimate varies based upon the definition, but the largest number that I recall in that report was right around 2 million.

Mr. STARK. So if it is at 2 million, then you are talking about $65 a year. So that is OK. You have got 2 million dislocated workers, right? That is not too tough. And you have got $400 million to spend. OK. So you have got $200 per dislocated worker over 3 years, and you can divide 3 into 200, and I will give you—I will split the difference with you, but you are under $70 a year for those people.

Mr. O'KEEFE. Are you making the assumption, Mr. Stark, that the Congress is not going to give the President the $225 million that he has requested for fiscal year 1985 for that program?

Mr. STARK. All I want to get at is just where we are now. I mean, you are the one who is telling me how much this $400 million is going to do. How much training are you going to buy for $70 a year? Or how much assistance? I mean, do you think you can do much of a job with that?

Mr. O'KEEFE. When we look at the average cost of retraining for a dislocated worker, Mr. Stark, which may be another way of getting at the point I presume you are trying to make, it probably costs us about $2,000 to $3,000 to retrain and move that individual into regular employment.

Mr. STARK. That $2,000 to $3,000 pays for a training program?

Mr. O'KEEFE. For a dislocated worker, yes, sir.

Mr. STARK. How long a program might that be? Sixty days? Ninety days?

Mr. O'KEEFE. As I say, we have got a little less than a year's experience, but when we were putting together those kinds of cost estimates, we assumed that the individual would be in the program about 5 to 6 months, that the individual would be engaged in some remedial training, basic competencies, that there would probably be some degree of classroom instruction on particular skills and some on-the-job training, and we used that to come up with that estimate.

Mr. STARK. Now, let us just take this worker. You are talking about $400 a month per worker. Now, how does the person live during that period?

Mr. O'KEEFE. If you took an individual who had just been displaced from a plant that was shutting down, and let me use an example of one that we recently——

Mr. STARK. Let us take Mr. Pease's guy who has been out of work for 3 years.

Mr. O'KEEFE. That is a different circumstance. Those are individuals we did not catch at the time they were laid off, and for those individuals the average cost would have to go up, because for those individuals they are going to need some form of a stipend, I would assume, but if we had got——

Mr. STARK. Let us take the Caterpillar plant in my district that closed a few months ago. How do those people live?

Mr. O'KEEFE. That would be a circumstance where the individuals could enroll in the JTPA retraining program. They have available to them 26 weeks of unemployment compensation, which would cover the average training program. And so, while that individual is in JTPA receiving the retraining, the unemployment compensation is available to meet their basic needs.

Mr. STARK. They have got to have unemployment compensation then to make the program work.

Mr. O'KEEFE. When we designed this, sir, we assumed it would be available to individuals as they came out of the plant that was shutting down or as they were being dislocated, and they would have it available.

Mr. STARK. But it does not help the person whose benefits have expired. Is that correct? I mean, if you assume it would be pretty tough to get trained on $400 a month.

Mr. O'KEEFE. Under 30 percent of the funds can be used in support of administrative services. The needs-based stipends can be paid there. For those individuals, they would be the ones for whom those needs-based stipends were intended.

Mr. STARK. But then you run out of money. What I am trying to get at is that if you have 2 million dislocated people, you do not have enough money. How many of the 2 million people, at some point have their benefits run out? These are the people we are concerned about. How many million people's benefits have expired now out of the 8 million unemployed?

Mr. O'KEEFE. It might help to go at it this way, Mr. Stark. We estimate that somewhere between 90,000 and 100,000 individuals would be served with the $223 million that we requested for the fiscal year.

Mr. STARK. A pretty small drop in the bucket, is it not?

Mr. O'KEEFE. I would say, Mr. Stark, that if we had experience, we could demonstrate the retraining programs were effective, that they did return people to jobs.

Mr. STARK. There is no question. It is just that it is not enough. That is all.

Mr. O'KEEFE. It would not be enough once we have proven that, but first, sir, I think we have to prove it. We have not had, and this is what I disagreed with you on earlier, we have not had a program where we have tried to retrain individuals who are middle class individuals. Much of our experience to date has been targeted toward economically disadvantaged individuals with certain needs that we knew about. The only experience——

Mr. STARK. Well, let us talk about them for a minute. We have in my district among black teenagers slightly in excess of 40-percent unemployment, and we have among black citizens, middle class, middle aged, unemployment ranging up into double digits. I believe it is currently around 16 or 18 percent, while the rest of the State is in much better shape on the average.

What do we do about the teenager who basically is structurally unemployable? We have no training program for them.

Mr. O'KEEFE. Well, the basic block grant, the title II program under the Job Training Partnership Act, which is targeted toward the economically disadvantaged, requires that 40 percent of those dollars that are appropriated to it—roughly $1.8 billion for the basic block grant program—40 percent has to be spent on economically disadvantaged youths.

Mr. STARK. How much a month per youth would that work out to be? What do you guess those youths will get in subsistence subsidies and in training? About how much a month do you figure that comes out to?

Mr. O'KEEFE. The average cost of training in the dislocated workers program or, I am sorry, in the disadvantaged program is escaping me right now. I do not recall for the youth that it would be as high as what we estimated for the dislocated workers.

Mr. STARK. That would include their subsistence money to live on?

Mr. O'KEEFE. If you were going to pay that out of the program, yes, sir.

Mr. STARK. How are they supposed to live? I mean, that may be a philosophic question. You say the program is not your Department's worry. You are there for training. But as a practical matter, if the youth is undertrained, and even those, I suspect, who graduated from high school are probably technically illiterate if not functionally illiterate for most high skilled jobs today, where do we go there? They have got to live, and if they cannot subsist, they cannot get training.

Mr. O'KEEFE. Well, I think the program attempts to provide opportunities for those youths to get into on-the-job training programs. JTPA is not intended to be, nor did we ever bill it as, the single solution to all labor market problems.

We have come forward with other proposals, some of which are not favorably received here and elsewhere. One would be to take away the artificial barrier to many of these youths obtaining jobs, which is an unduly high minimum wage, and to provide a lower minimum wage so that these individuals could compete for jobs at the competence level that they have when they are first entering the labor market.

Mr. STARK. OK. How high do you think the minimum wage should be?

Mr. O'KEEFE. We have proposed a differential of 25 percent so that the youth would be paid $2.50 an hour.

Mr. STARK. Let us just take some for instances. Outside of McDonald's and the Marriott Hotels, scrubbing johns, where do you suppose these youths are going to get jobs at $2.50 an hour that they cannot now get at $3.35 the minimum wage?

Mr. O'KEEFE. There are many places where employers are paying $3.35 an hour plus fringe benefits, which would lead you not to hire youth when you look at their potential productivity. If you look at a program, for example, that targeted jobs tax credit——

Mr. STARK. Would you give me some examples of industries that have a large number of workers at minimum wage?

Mr. O'KEEFE. These are largely portal jobs, service jobs of one kind or another.

Mr. STARK. Janitoring?

Mr. O'KEEFE. Yes, sir.

Mr. STARK. Do you think janitors work for the minimum wage in New York or in Chicago or San Francisco or Oakland?

Mr. O'KEEFE. I do not know that qualified building supervisors get that, but laborers do.

Mr. STARK. Do you really think that?

Mr. O'KEEFE. Yes, sir.

Mr. STARK. And you think there are unfilled jobs in those areas?

Mr. O'KEEFE. They are nonexistent jobs at $3.35 an hour, Mr. Stark. They are jobs we have foregone in this economy.

Mr. STARK. Well, there the President always talks about reading the want ads. Are there thousands or hundreds of job openings at the minimum wage in these major cities that are going unfilled?

Mr. O'KEEFE. Not at the minimum wage. No, sir. They do not exist. That is the point. At $3.35 they have been priced out of the market. The marginal value of the product does not equal $3.35 or more an hour, and it does not make sense for an employer to spend more than what he is going to get in return.

Mr. STARK. So you are saying in effect there is a point at which the labor or the service of a human being just is not worth $500 a month gross. Have we come to the point where there are some people in this country who cannot in the period of a month contribute $500 worth of economic productivity?

Mr. O'KEEFE. That is not what I am saying, Mr. Stark. What I am saying is, for an employer who has to balance those books at the end of the month, he is not in a position to hire somebody to give him 400 dollars' worth of product and pay that individual 500 dollars' worth of wage. Do that long enough, and you will not long be an employer.

Mr. STARK. OK, and so then at $400 he is going to keep the workers he now has at $500 and hire some others at $400?

Mr. O'KEEFE. The proposal that we have brought forward is intended to protect against that kind of displacement because one fear that one has to have is that if you provide a youth differential, it would result in the youth displacing adults who are working at or near the minimum wage, and so we inserted in our proposal considerable penalty for those who would displace adults or other workers.

Mr. STARK. So at $100 a week, in other words, the basic differential between the minimum wage and subminimum wage. Suddenly there would be more janitorial jobs, and you think that more McDonald's would open up just because you drop the wage that they have to pay for those services from $500 to $400? In other

words, there is that demand. You guys are so close on that that you see a major increase in demand when you cross over that figure?

Mr. O'KEEFE. I wish I had brought it with me, Mr. Stark. I did not realize you were going to get into the youth employment opportunity wage proposal, but if you were to draw a graph comparing the unemployment rate of youth, particularly the unemployment rate of minority youth starting in about 1950, and then also draw on that graph the upward ratcheting of both the coverage and the level of the minimum wage over that same 35-year period, there is almost a compelling coincidence between those two that as the unemployment rate of youth was going up, so was the minimum wage, and in effect what was happening was those youth were being denied jobs.

They were being locked out of the labor market. As we did that, we not only locked them out for this summer or for last summer, we locked them out in terms of obtaining the kinds of skill and obtaining the experience that they could then walk into their next employer and say: I worked here, and I showed up on time, and I did what I was asked, and I got it done. Now will you hire me at the next level up?

And so when we look at some of these figures for long-term unemployed, and we look at the 1½ million individuals who have been unemployed for 26 weeks or longer, we do have to ask ourselves whether perverse public policies denied those individuals the opportunity to get in the labor market to compete on equal terms and to develop the kind of experience they needed to become independent in the labor market.

Mr. STARK. Well, probably prayer in schools would work, too, because these youth have not been adequately prepared by the past administrations to meet the rigors of the labor market, and that might be a big help. So we are going to take care of the minority youth by lowering the minimum wage, and you figure that will pretty much solve the problem.

Mr. O'KEEFE. In providing them the training that we are offering under the Job Training Partnership Act.

Mr. STARK. While they are in this subminimum wage situation?

Mr. O'KEEFE. And hoping the states and localities will hear what you just said about improving our basic educational structures around this country, because that is largely a State and locally financed system. And unless we make the kinds of——

Mr. STARK. And this administration has seen to it that it becomes almost 100 percent locally financed.

Mr. O'KEEFE. Historically that has been the case, sir. But the point is that at no time did anyone propose, as far as I know, matching the kinds of financing that the states and localities are putting in there to the tune of almost $200 billion a year. And I have not seen a proposal that we are going to match that.

So let us say that it is largely going to be a State and local finance system, and we have to hope that the States and localities heard what you just said about improving the competencies of the youths who are coming out of that system because they are competing not only with each other, they are competing in a global economy, Mr. Stark, and they have to be more productive in order to

attain and sustain the kind of lifestyle that we treasure here in this country.

Mr. STARK. There is no question that they have to have a job, and I find fault a rather useless concept; I am wondering what we are going to do. There is some question that we have certain groups of youth who are not adequately trained to get into the ever increasingly complex jobs that require ever increasing abilities and training.

I must say I have, to the chagrin of some of my friends in the labor movement, tried very hard to think about the idea of experimenting with a lowered minimum wage in some areas. I would suspect that I am one of the few people in this discussion that has ever run a business, or as they say in more conservative circles, met a payroll. I find it difficult in a sense in dealing in my own community to really think how many more jobs would be created. I find that, for instance, in our case we have had mostly organized building services trades so that they worked at considerably above minimum wage. We have had serious questions of displacing high wage individuals with long job records with nonunion contractors or with work contracted out, which I suspect will right itself in time. But, I cannot see the marginal effect of a subminimum wage pushing McDonald's or Church's Fried Chicken or a motel chain into opening an additional restaurant in the communities where these youth would be available.

Now, if their mobility were increased so they could move into the richer suburbs, it is conceivable, but I think that as a practical matter is not likely to happen. I am not sure how that is going to work. I am beginning to think that universal service, for instance, might be a better way to deal with work habits. And perhaps all of the youth ought to have the job of military service, and then we would at least have a group of people entering, both rich and poor, who learned how to get up at 6 o'clock every morning and get to bed on time.

But then let us take this group of people who we have missed for whatever reason and we may miss because you and I will not be able to agree on what to do with them for a couple of years, and take somebody who is approaching middle age, wherever that is, but middle age relative to the job market. They become less trainable, and at some point they become less desirable, because if they are at whatever age, they are more expensive. As the phone company so aptly calls them, the nontraditional employee.

We have the phone company in our State going on to forced overtime because it does not want to train nontraditionals and maintain their fair balance of minorities. And so they get their new employees out of the military, and then we lose good trained people in the military. But they love to get them there because it saves them the problem of taking their nontraditional trainees, as they call them.

What do we do with the middle-aged person, the person who has never done anything but domestic work or been a janitor and worked at below minimum wage because he and the employer have both been cheating in the past. I would think that they are the structurally unemployed. The person who has been on an assembly line really is, through whatever fault or whatever agreement be-

tween employer and employee, getting a lot of money because he has come up in a craft. Take for example an airline pilot. There is no reason that a $90,000 airline captain is any better than a young captain coming out of the Air Force, who is probably a better pilot actually than the 60-year-old guy who has been flying the 747. The recent Air Force guy with 5 or 10 years probably has had better training and probably is physically and mentally more agile and probably a safer pilot. He can get work at $30,000—a perfect example of where just through seniority and union negotiation we have got a dislocation.

What do we do with these poor middle-aged people? Should we just support them, give them $500 a month to support them, or just make work for them as a more dignified way of providing sustenance, or as Mr. Nixon suggested, the family assistance program of providing a minimum income?

Have you ever said at some point let us just take these people who are a little too old to train, and they are competing with the younger people we want to train, and let us go back to the FAP, which was basically a Nixon program of minimum income, a negative income tax sort of thing?

Has that ever been considered as a cheaper way to deal with the problem in the aggregate?

Mr. O'KEEFE. I do not think that—and I know you are not proposing it—but I do not think that the kind of passive transfer policies that are implicit in what you are describing there are either cheaper or bring with it any patina of dignity. The very way you are describing the CETA jobs as the make-work jobs—what we observed in many of those CETA jobs where they were treated apart, they were certainly not viewed by the regular work force as being full employees, full members of the team.

What we have said, and what we have brought forward, and what we are trying to make work in JTPA is the fact that we should not look at ourselves as leaving school at 18 or 22 or whenever it is we graduate the last time and that be the end of our school development and the refurbishing of our basic competencies.

We see a lot of individuals who leave jobs, particularly production jobs. They have not had an opportunity to use their basic skills, their math or their reading in a way that some new jobs in the higher tech fields and the computer fields will.

So what we have said in JTPA, and we are saying it with $223 million a year, and that is a lot of money by anybody's reckoning, and clearly, as I said to you before, it is not an entitlement even if you take the low end of the spectrum. We are not expecting to serve everybody out of that.

But when you look at that, and if it works, then, as Secretary Donovan has testified elsewhere, we will be willing to go forward to the President and to say that this is an investment that makes sense. We are returning people to work, these middle-aged individuals that you are talking about, because they are not less productive than a younger person who has come on to the line. It is that their skill development has gone in one general area because they were developing those skills on the job.

The other individuals come out of the recent training experience and probably have a broader but less deep set of skills. And so

what we are saying in JTPA is let us offer the opportunity for the individual, and particularly if we can merge that at the point of displacement rather than having an individual sit back and not realize that the training is available, and perhaps fritter away very valuable time, to marry the unemployment compensation benefit that they are receiving with enrollment and training, and to prepare themselves for the jobs that are opening up.

Mr. STARK. At 2½ bucks an hour.

Mr. O'KEEFE. I am sorry?

Mr. STARK. At $2.50 an hour.

Mr. O'KEEFE. No, sir. You are picking up on my youth discussion.

Mr. STARK. Thank you. It has been most enlightening.

Chairman FORD. Thank you, Mr. Stark.

There are some additional questions that due to time, Mr. Secretary, I would like to submit them to you in writing, and hopefully you will respond to them for the record, dealing with EB and FSC and some other areas that Mr. Stark has talked about. And he has talked about black teenage unemployment versus some of the other unemployment problems that we are faced with. And I would like to submit them to you, and hopefully you would respond back for the record.

Mr. Campbell.

Mr. CAMPBELL. No questions, thank you, Mr. Chairman.

Chairman FORD. Mr. Secretary, we would like to thank you very much for appearing before the committee.

Mr. O'KEEFE. Thank you very much, Mr. Chairman.

Mr. CAMPBELL. Mr. Chairman, I also have a question to present for the record.

Chairman FORD. Without objection it will be made a part of the record.

The committee would now like to call the National Governors' Association, Hon. Richard Celeste, Governor of the State of Ohio and chairman of the National Governors' Association Employment and Training Subcommittee, and ask that he come to the witness table to appear before the subcommittee at this time.

And the Chair would also like to recognize a very bright, able and distinguished member of the subcommittee from the State of Ohio to introduce the Governor of the State of Ohio, Mr. Don Pease.

Mr. PEASE. Thank you very much, Mr. Chairman. And I am very pleased indeed to be able to introduce to the subcommittee Hon. Richard Celeste, Governor of Ohio and chairman of the National Governors' Association Subcommittee on Employment and Training.

It has been my pleasure to serve as an elected official with Governor Celeste since, well, 15 years ago at least when he and I served together in the Ohio House of Representatives, and he went on from there to become the Lieutenant Governor of Ohio and for the last 2 years a very distinguished Governor for our State.

During all of that time he has shown an unusual sensitivity to the problems of working Ohioans, and unfortunately, of nonwork-

ing Ohioans, of which we have had many thousands in the last 2½ years.

I think it is especially appropriate that Governor Celeste would chair the Governors' Subcommittee on Employment and Training because of that proven and longstanding interest of his. I look forward very much to his testimony, and I am happy to welcome him to this subcommittee.

Chairman FORD. Thank you very much, Mr. Pease.

Governor, we once again would like to welcome you before the committee, and we look forward to hearing from you. The Chair would like to say for the record that we will entertain all of the written testimony and make it a part of the record, any additional information from the Governors' Association that you would like to submit for the record.

And at this time the Chair will recognize you for any testimony that you would like to give.

STATEMENT OF HON. RICHARD F. CELESTE, GOVERNOR OF THE STATE OF OHIO, AND CHAIRMAN, EMPLOYMENT AND TRAINING SUBCOMMITTEE, NATIONAL GOVERNORS' ASSOCIATION

Governor CELESTE. Thank you very much, Mr. Chairman, and Congressman Pease, and members of the subcommittee.

I am Richard Celeste, Governor of Ohio, here on behalf of the National Governors' Association as the chairman of its Employment and Training Subcommittee. I cannot resist observing that it was a year to tomorrow that I appeared, Mr. Chairman, before you and Congressman Pease on the same issue of concern.

I am pleased to have the opportunity to come before you today to testify on a variety of issues relative to the Unemployment Insurance Program; and I appreciate the fact that the entire testimony will be submitted for the record. So let me simply underscore some of the key points and then entertain your questions.

The Governors believe the unemployment insurance system is the Nation's first line of defense against the ravages of unemployment and view unemployment compensation as an integral part of the social safety net afforded our jobless workers.

Between the third quarter of 1981 and the fourth quarter of 1982, unemployment averaged 9.7 percent. During this recession, 19.4 million unemployed received benefits under the Federal-State Unemployment Insurance Programs at a cost of $32.1 billion.

As you know, as of January 31 of this year, 26 States had had recourse to loans totaling nearly $14 billion, $13.78 billion. So the attention of the Governors on this issue is substantial, strong, and deep.

We believe that it is critical to preserve and to improve this vital program, and as a consequence greatly appreciate the initiatives of this subcommittee. While the encouraging news about declines in unemployment have clearly helped to ease the immediate crisis, they should not encourage public policymakers to assume the good health of our Nation's unemployment insurance system. In fact, problems experienced during the last recession have brought to the fore certain weaknesses in the system and raised fundamental

questions regarding the underlying concepts of the Federal-State unemployment insurance programs as presently constituted.

Particularly because of basic structural changes in our economy, the nature of unemployment is different now from what it was when the current system was designed. As periods of unemployment for individual workers become longer, I think we will continue to see greater demands on the system.

We recognize that the Congress has taken limited action to address some of the more apparent problems of the unemployment insurance system. However, these changes have focused on remedies to address immediate solvency concerns and the institution of some quick fix supplemental benefit programs aimed at addressing the record high long-term unemployment.

All who have witnessed the way our unemployment insurance programs functioned in the past recession agree, I think, that now is the time for a more comprehensive review and reform. Based on this history, the National Governors' Association would like to recommend the following steps.

First, the development of a more rational extended benefit program. The patchwork of extended benefit programs has produced uneven coverage and hardship for the jobless and has proven in many respects a nightmare to administer. The National Governors' Association will support changes in the Unemployment Insurance Program that aim to correct these problems; and we would like to suggest to the committee some underlying concepts which we believe would be essential in reforming the system.

A new, permanent, comprehensive extended Unemployment Insurance Benefit Program should be established which will remain a Federal-State partnership, but will require that in periods of high unemployment, the Federal partner will contribute the greater amount. When State unemployment reaches a level beyond which the State's employers can be expected to cover the entire cost of extended benefits, the Federal partner's share should be financed partially through the FUTA revenues and partially through Federal general revenues.

At a still higher level of unemployment, the Federal partner should finance the entire cost of extended benefits through Federal general revenues. There must be close ties between this program and training and work programs that are designed to assist long-term unemployed persons in returning to the productive work force.

We would urge that careful consideration be given to any incentives or disincentives that get built into such a program. Having to choose between training and unemployment compensation benefits is a very severe disincentive for workers. States must be given as much flexibility as possible in the administration of such a program. For example, work search requirements ought to be tailored to meet local labor market conditions. States must have sufficient lead time to adjust their own laws, budgets, and administrative procedures to major changes in Federal funding or policy.

A second dimension on which I would like to offer some suggestions on behalf of the Governors relates to expanding available research information. The continuing changes we see both in the nature of the economy and in the characteristics of the unem-

ployed need to be carefully documented and evaluated, as must the changing nature of State unemployment systems themselves.

At the State level we are undertaking a number of research projects designed to more systematically describe the nature of the problems that we confront and to update information on the status of State systems. However, there is also a need for the maintenance and development of Federal research and data collection efforts to assist this process. It is critical that existing programs be retained, and we urge the subcommittee to consider carefully the need for restoring the funding for the continuous wage and benefit history survey which is now scheduled for termination.

The third broad recommendation that we would make involves the establishment of a national commission on reform of the unemployment insurance system. It is clear that there are broad cycles in our economy and that we will once again face periods of recession and increased unemployment.

We believe that the current system is ill-equipped to respond adequately to that new challenge, and we also believe that it is most advantageous to address needed reforms now before a new crisis is upon us.

As a result, the Governors believe that it is both appropriate and necessary to establish a bipartisan commission similar to the one created to examine the social security system. Such a commission could remove this critical issue from partisan debate and provide a forum to review the impact of legislation already enacted and to enhance our understanding of the issues that the unemployment insurance system will face over the next years and decades.

And I might just underscore the recent data, which indicates that less than one out of three of our unemployed workers receives benefit from the present system. This, it seems to me, provides a very considerable impetus to this deliberation.

We also need to adopt a commission which I believe would also assist in developing a consensus around some of the recommendations that have already been proposed and building a constituency for those recommendations, as well as developing solutions where they are needed, where further work is required.

A careful reform of the unemployment insurance system presents a number of political and program challenges. It will necessitate a careful balance between the needs of employers and of potential beneficiaries. It will need to address difficult issues of possible needs testing and of the allocation of responsibilities and resources among three levels of government: the Federal level, the State level and the local level.

It will require exploration of the range of intervention strategies and labor market adjustment policies to effectively deal with the problem of returning the long-term unemployed to productive work. The resolution of these issues will require some time and effort, and we must not postpone their resolution until we face another emergency and are confronted by even larger numbers of unemployed, often uncovered workers in our States.

I want to stress that unemployment insurance policy remains an issue of overriding concern to the Governors of this country. I appreciate and we all appreciate the opportunity to share with you these views which reflect the policy of the National Governors' As-

sociation and to express real appreciation for your determined efforts to address these large issues.

And if I could take off my hat as an NGA representative for 1 minute and put on my hat as Governor of Ohio, I would like to express my deep appreciation to the determined efforts of Congressman Don Pease and of Congresswoman Marcy Kaptur, who I know are involved in a leadership effort with several of their colleagues in the Extended Unemployment Act of 1983, and to say we are proud of that commitment, and we hope that together we can fashion a system that will work wisely and well for the next several generations in this country.

[The prepared statement follows:]

STATEMENT OF HON. RICHARD F. CELESTE, GOVERNOR OF OHIO, AND CHAIRMAN OF THE NATIONAL GOVERNORS' ASSOCIATION EMPLOYMENT AND TRAINING SUBCOMMITTEE

Mr. Chairman, members of the Subcommittee, my name is Richard Celeste. I am Governor of the State of Ohio and am speaking on behalf of the National Governors' Association as Chairman of its Employment and Training Subcommittee. I am pleased to have the opportunity to come before you today to testify on a variety of issues relative to the unemployment insurance program.

The Governors believe the unemployment insurance system is this nation's first line of defense against the ravages of unemployment and view unemployment compensation as an integral part of the social safety net afforded our jobless workers. Between the third quarter of 1981 and the fourth quarter of 1982, unemployment averaged 9.7 percent. During this recession, 19.4 million unemployed received benefits under the federal/state unemployment insurance programs at a cost of $32.1 billion. We believe that it is critical to preserve and improve this vital program.

While the encouraging news about declines in unemployment have eased the immediate crisis, it should not encourage public policy makers to assume the health of our nation's unemployment insurance system. In fact, problems experienced with the last recession brought to the fore certain weaknesses in the system and raise many questions regarding the fundamental concepts underlying the federal/state unemployment insurance programs. Moreover, because of structural changes in the economy, the nature of unemployment is different now from what it was when the current system was designed. As periods of unemployment for individual workers become longer, we will continue to see greater demands on the program.

We recognize that the Congress has taken limited action to address some of the more apparent problems of the unemployment insurance system. However, these changes

have focused on "remedies" to address immediate solvency concerns and institution of quick-fix supplemental benefits programs to address record high long-term unemployment. All who have witnessed the way our unemployment insurance programs functioned in the past recession must agree that a more comprehensive review and reform is needed. I would like to spend a few minutes to review this history and to identify some of the concerns/issues that should be addressed during the reform effort.

CURRENT PROBLEMS

During the recession from which we now are emerging, our national unemployment insurance system was severely strained. Needed relief to millions of jobless workers was provided through the system during this period, although at great cost to both service providers and beneficiaries. Three major concerns have emerged from that experience:

- state trust funds will require a significant period of recovery to restore the reserves needed to maintain benefits during future periods of high unemployment;

- the lack of a consistent program of extended and supplemental benefits makes it difficult for states to plan for future periods of high unemployment; and

- with the decline in the percentage of the unemployed eligible for unemployment insurance benefits, larger and larger portions of the costs of necessary services to those without adequate financial reserves must be borne by state and local governments.

As a result of the most recent recession, states experienced an unanticipated and massive increase in the volume and duration of claims activity. This caused considerable pressure on state unemployment insurance trust fund reserves and yielded staggering deficits in many states. As of January 31, 1984, 26 states had outstanding loans totalling $13.78 billion, exclusive of interest owed on a significant proportion of that debt. The shadow of this debt will follow some states through this decade, raising questions as to the fiscal capacity of the system to meet future demands.

Some state UI trust funds currently are benefiting from the economic recovery; because employment is increasing, employers are paying UI taxes on more employees and because unemployment is declining, fewer individuals are collecting unemployment compensation. So, too, is it important to realize that many states have taken extraordinary actions to tighten their benefit coverage and increase their tax efforts to improve the financial status of their UI programs. These reforms have been made with great sacrifice by employers and claimants and, to the extent that they further tax declining industries, at great risk by the states in terms of economic recovery and future economic growth. Evidence of improvement is reflected in the fact that as of July 31, 1984, outstanding loans stood at $10.62 billion, due to repayments of over $3 billion since the end of January. Keep in mind, however, that unemployment typically lags behind other indicators of economic recovery and that any recovery masks significant regional differences in the employment picture. Many states and substate areas continue to experience historically unprecedented unemployment levels.

While the overall state trust fund picture is looking better and states are to be commended for working diligently to bring their systems into balance, there is nothing to preclude the so-called "UI crisis" from recurring. Unemployment compensation is an

actuarial system premised on the concept that tax receipts will be built up in good times in sufficient amounts to cover benefit outlays in bad times. The three recessions of the past eight years came too close together for even this basic financing assumption of the UI system to play out appropriately. When our nation experiences another economic downturn, and absent changes in the structure and financing of UI benefits, the states, again, will face deficits in their trust funds and the jobless will continue to confront the hodgepodge of programs we euphemistically call the unemployment insurance system.

Moreover, at several points during this period of severe economic decline, only a handful of states, some with unemployment rates as high as 15 percent, qualified for the Extended Benefit program. Thus, a key cornerstone of the UI system crumbled for a great many jobless in need of assistance, leaving many without needed benefits. The near absence of the Extended Benefit program during the worst economic downturn since the Great Depression raises questions as to the appropriateness of established trigger levels and the sensitivity of the insured unemployment rate as a measure of true labor market conditions.

Exacerbating the problem was the fact that Congress was not able to establish a supplemental benefits program during the past recession until national unemployment reached 10 percent. This caused notable hardship to workers who lost their jobs early in the recession and who exhausted basic and extended benefits before supplemental benefits became available.

In addition, the various extensions and revisions to supplemental benefits programs have proved a nightmare to individuals charged with the responsibility .o administer these programs. These changes also have caused much confusion and frustration in the minds of

jobless workers who need to avail themselves of such assistance. Since 1958, no less than seven separate pieces of extended benefits legislation have been enacted, not counting modifications to the programs during interim periods. The number, variety, and complexity of these programs is indicative of the absence of a rational, comprehensive program to deal with the serious problem of long-term unemployment.

Finally, a recent study by the Center on Budget and Policy Priorities indicates that only 29.2 percent of the unemployed received any form of unemployment insurance benefit in June of 1984. This is the lowest percentage of unemployed receiving benefits in the history of the UI program. The all-time low in UI coverage reflects limitations in the regular program prompted by state solvency concerns, the virtual elimination of the Extended Benefits program, and restrictions on Federal Supplemental Compensation. It also results in increasing demands upon the needs tested income security programs which are of significant cost to state and local governments. These costs are shifted from the trust fund accounts to already hard pressed state and local general revenues.

DEVELOPING TRENDS

As compelling as these current problems appear to be, they are made even more so by several emerging trends, specifically:

- periods of recession appear to be more frequent and more severe, thereby increasing the demands upon the unemployment insurance system; and

- the nature of unemployment appears to be changing as we experience increased structural unemployment which is not easily addressed within a system designed to ease transition between reasonably available jobs.

The Governors' concerns about the fiscal capacity of the unemployment insurance system and its ability to endure subsequent periods of economic downturn while simultaneously providing needed assistance, are supported and heightened by recent research which reveals some disturbing trends in the unemployment picture. Such trends have serious implications for the unemployment insurance system and our nation's employment and training and income security policies. In an essay on labor market policy and structural adjustment, prepared for the Joint Economic Committee, Michael Podgursky of the University of Massachusetts notes that "each recession during the 1970s to the present has brought higher average rates of unemployment than the preceding recession" and that "each recovery has failed to fully absorb the rising pool of unemployment."

Further, the Center on Budget and Policy Priorities' analysis discussed earlier reveals that while the unemployment rate is the lowest since April 1980, there continue to be large numbers of long-term unemployed (persons out of work more than 6 months and still looking for a job). In fact, there now are nearly 1 million more long-term unemployed (an increase of 133 percent) than in April 1980. The number of discouraged workers has increased substantially as well. So, too, are the spells of unemployment longer than in the past with the average length of unemployment now being almost 2 months longer than in April 1980.

These apparent trends and disconcerting statistics raise several important policy questions. Federal policies to address solvency concerns have prompted states to shrink their UI programs. This, coupled with the vacuum created with the virtual loss of the Extended Benefits program and the strict limitations of the Federal Supplemental

Compensation program have caused many, including the Governors, to raise concerns about the adequacy of protection under the federal/state UI programs. Are the "right" people being precluded from benefits and for the "right" reasons --has the focus on debt forced an undesirable reduction in the income protection afforded under the system? Moreover, in view of higher average duration and continued large numbers of long-term unemployed, can we say that needed assistance is available under the current benefit structure of the federal/state UI system? Or, is the unemployment insurance system even the appropriate system to address long-term structural unemployment or are other intervention strategies needed?

In this last regard, the Governors have additional concerns. There is an emerging recognition that this nation is confronting significant shifts in its technology and economic base. These shifts portend many changes in the skill requirements needed by our workforce and it may be that significant numbers of workers will be displaced from their jobs. Such dislocation has potentially serious financial implications for our nation's unemployment insurance system. It seems reasonable, therefore, that our national employment security policy include a response to these changes.

The Job Training Partnership Act (JTPA) of 1982 must be applauded for its recognition of the problems of the dislocated worker and their need for retraining. In addition, this legislation recognized the critical link between this group of workers and the unemployment insurance system by tying the state match required for the program to UI benefits paid. It also mandated that Title III participants continue to be eligible for unemployment compensation while enrolled in a training program. This represents a good

beginning. The Governors, however, feel obliged to take this opportunity to point out an implicit inconsistency in national policy as regards the linkage between our employment and training and unemployment insurance programs. On the one hand, under the JTPA Title III provision, states are given the message that the use of the UI benefit payment as income support during training is acceptable and, in fact, laudable. On the other hand, general state efforts to effect the integration of training and unemployment insurance is all but prohibited for fear of failing to meet the solvency efforts legislated under the Social Security Act Amendments of 1983. This same fear causes states to pursue rather cautiously, or simply forego, other labor market adjustment programs, such as the worksharing or training surtax programs in California. We believe that the issue of the linkage between training and unemployment insurance should and must be part of the continuing dialogue being addressed here today.

RECOMMENDATIONS

Taken together, the problems of the existing unemployment insurance programs and the projected need for assistance to deal with future dislocations point, we believe, to a need to reexamine the structure and financing of benefits under the unemployment insurance system. As detailed in this testimony, the Governors' concerns center around the inherent fiscal capacity of the unemployment insurance system to meet demands and the adequacy of coverage provided under the system.

The validity of the financing assumptions behind the system have been called into question in light of apparent economic trends and changes in the unemployment picture in the modern era. And, in view of these developments, the fiscal integrity of the unemployment insurance system will continue to be at risk. The focus on fiscal resources

has dictated the structure of benefits with the result that coverage for the unemployed is at a historical low. And, the social safety net of unemployment compensation may no longer be adequate. Several immediate steps are needed.

Develop A More Rational Extended Benefit Program

The patchwork of extended benefit programs has produced uneven coverage and hardship for the jobless and has proven a nightmare to administer. The National Governors' Association will support changes in the unemployment insurance program that aim to correct these problems and we would like to suggest to the Committee some fundamental concepts and underlying principles which we believe essential to the reform of the system. These include:

- A new, permanent, comprehensive extended unemployment insurance benefit program should be established, which will remain a federal-state partnership but will require that in periods of high unemployment, the federal partner will contribute the greater amount. When state unemployment reaches a level beyond which that state's employers can be expected to cover the entire costs of extended benefits, the federal partner should finance a share of the extended benefits. At this level, the federal partner's share should be financed partially through FUTA revenues and partially through federal general revenues. At a still higher level of unemployment, the federal partner should finance the entire costs of extended benefits through federal general revenues.

- There must be a close tie between this program and training and work programs that are designed to assist long-term unemployed persons in returning to the

productive workforce. Careful consideration must be given to any incentives/disincentives included in such a program.

- States must be given as much flexibility as possible in the administration of such a program. For example, work search requirements must be tailored to meet local labor market conditions.

- States must have sufficient lead time to adjust their own laws, budgets and administrative procedures to major changes in federal funding or policy.

Expand Available Research Information

The continuing changes that we see both in the nature of the economy and the characteristics of the unemployed need to be carefully documented and evaluated as must the changing nature of state unemployment systems themselves. At the state level, we are undertaking a number of research projects designed to more systematically describe the nature of the problems that we confront and to update information on the status of state systems. We will, of course, be pleased to share that information with the Subcommittee as it becomes available.

However, there is also a need for the maintenance and development of federal research and data collection efforts to assist this process. It is critical that existing programs be retained and we would urge that the Subcommittee consider carefully the need for restoring funding for the Continuous Wage and Benefit History survey which is now scheduled for termination.

The NGA is most willing to work with the Congress and the Administration in the identification of needed data and of the most efficient methods of collection. This problem is too complex to explore without adequate information.

Establish A National Commission on Reform Of the Unemployment Insurance System

While piecemeal changes in the unemployment insurance system may offer some opportunity for improvement and should be pursued, the Governors believe that the problem is more fundamental. It is clear that there are broad cycles in our economy and that we will once again face periods of recession and increased unemployment. We believe that the current system is ill equipped to adequately respond to that new challenge. We also believe that it is most advantageous to consider needed reform before that new crisis is upon us.

As a result, the Governors believe that it is both appropriate and necessary to establish a bipartisan commission, similar to the one created to examine the Social Security system. Such a commission could remove this critical issue from partisan debate and provide a forum to review the impact of legislation already enacted and enhance our understanding of the issues that the Unemployment Insurance system will face over the next years and decades. It would also assist in developing a consensus needed to adopt some of the recommendations that have already been proposed and to develop new solutions where needed.

A careful reform of the unemployment insurance system presents a number of political and program challenges. It will necessitate a careful balance between the needs

of employers and potential beneficiaries. It will need to address difficult issues of possible needs testing and of the allocation of responsibilities and resources among the three levels of government. It will require exploration of the range of intervention strategies and labor market adjustment policies to effectively deal with the problem of returning the long-term unemployed to productive work. The resolution of these issues will require time and should not be postponed until we face another emergency.

The states are prepared to be fully cooperative in such a joint effort and we would urge the Subcommittee to join us in our call for the creation of this commission. The Governors, in conjunction with other state-based organizations, remain committed to working with appropriate congressional committees and members on legislation that will address the needs of the unemployed and simultaneously take into account the financial capacity of the states to deal with the problems of high unemployment.

Please be assured that unemployment insurance remains an issue of overriding concern to the Governors. Again, thank you for this opportunity to share with you our views in this critical policy area and we will continue to apprise the Congress of our thinking.

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Chairman FORD. Thank you very much, Governor.

You know, Governor, you mention in your written testimony that the overall State trust fund picture is looking somewhat better. I would have to say that States are to be commended for working diligently to try to bring the system into balance.

I, too, would agree with you when you said something else, that there is nothing to preclude the so-called unemployment insurance crisis from recurring once again. And I think that as chairman of this committee, I must say to you that I accept warmly those recommendations that you have placed before the subcommittee, and would like to say also to you that we will in fact take those suggestions into consideration as we meet in the coming months to mark up some legislation to reform the Federal Supplemental Program or the Unemployment Compensation Program in general.

I have one question, Governor, if you do not mind. Some State UI trust funds have been borrowing and borrowing and running that tab up, up and up. You have already mentioned that yes, you have been able, most States have been able to bring it back into balance. But at the same time, prior to January 1984, in the State of Ohio—and I know you are testifying on behalf of the National Governors' Association—but in your State alone how were you able to respond to those huge amounts borrowed from the trust fund as they relate to reducing some of those amounts?

Governor CELESTE. Painfully, Mr. Chairman.

Chairman FORD. What were some of the things you and your State did?

Governor CELESTE. Let me say that the dimension of the problem at the time I took office was that we were confronted by a debt of about $2 billion, and about $1 billion of that was interest bearing.

We have undertaken a program to qualify both for the deferral of interest and to meet our obligation to move toward a balance in the fund, and took steps along the following lines.

In terms of benefit reductions, we eliminated the payment of the waiting week. We increased remuneration requirements for claimants who lost jobs due to disqualifying conditions, who quit voluntarily or were fired justly. We froze the maximum benefit amount at the 1982 levels and increased the base earnings requirement per week from $20 to 30 times the State minimum wage. In terms of tax provisions, we increased the taxable wage base from $6,000 to $7,000 parallel to the Federal rate. We increased the contribution from employers. The old range was 1/10 of 1 percent to 3/8 of 1 percent. The new range is 2/10 of 1 percent to 5/10 of 1 percent. We raised from 7½ percent to 10 percent the interest payable by employers who have been delinquent in contributions. We made a whole series of steps of this kind. We have reduced that debt in the fund by about $700,000, bearing in mind that our unemployment rate in Ohio is still about 2 points above the national average, so that we continue to suffer very severe unemployment in Ohio.

Chairman FORD. Governor, you know, I think the Secretary was here earlier, and I just wanted to have on this record today that you did in fact make significant changes in order to respond to the huge dollar amount that you owed the trust fund. I know many of us on the subcommittee tried to recommend and pass legislation

that would have given you even more relief than we were able to do in the social security bill.

But we hear from the administration the concept of recovery and all, and all of these good things have been able to happen; and I just wanted to for the record, to have it straight that you did in fact—not only you but other Governors as well in other States—had to make significant changes in order to respond to this real unemployment problem that we were faced with, and with the trust fund borrowing from the Federal Government.

Governor CELESTE. Absolutely, Mr. Chairman. In fact, I misspoke. It is $700 million that we reduced our obligation to the fund. And that is again, I would emphasize, at a time when unemployment is still above 9 percent in our State, about 2 points about the national average.

Chairman FORD. Thank you very much.

Mr. Pease.

Mr. PEASE. Thank you very much, Mr. Chairman.

I would like to thank Governor Celeste for his excellent testimony. I will ask just one or two questions.

Has the Governors' Association Task Force looked at the question of integration of FSC and EB? And are you in favor of integrating those two?

Governor CELESTE. Let me say that we have looked at that, and in using the term extended benefits here, we really are not referring to the specific manner in which extended benefits were provided in the past but are talking about benefits that meet the needs of long-term unemployed. So we would view it as needing to be an integrated program rather than a series of stopgap, sometimes even almost contradictory provisions.

Mr. PEASE. Well, thank you. That is very good.

You have expressed some concern about the problem of long-term unemployed people. As I mentioned earlier with another witness, unemployment in my area is very high, and people have been unemployed for 2 or 3 years. That is a very knotty question, because unemployment compensation was not originally designed for long-term structural unemployment.

Do you have any thoughts at all about what the committee might look to in a general way in dealing with the problem of people who fall off the cliff of employment and then off a lower cliff of unemployment compensation way down to welfare? In many cases they are not eligible for welfare, and it occurs to me that we need to have something between welfare and unemployment compensation for the long-term unemployed.

I don't expect you to have any kind of a detailed recommendation, but if you have any thoughts at all that might be helpful to the subcommittee, I would certainly appreciate having them.

Governor CELESTE. It seems to me that one of the questions to be examined is our eligibility requirement for certain kinds of programs. I think the place where the Congress has faced this most squarely has had to do with health insurance, because certainly one of the impacts for long-term unemployed is that they lose health insurance benefits, and if they lose unemployment compensation as well, they are in a never-never land and frequently are not yet entitled to be recipients of Medicaid and general relief.

I think that the question of assets that are considered when determining what kind of benefits a person might be eligible for would be one dimension of review. The other aspect of this really has to do with how and when, and it goes to, I think, the training issue where people are presently often obliged to choose between certain programs that help maintain their income, and being enrolled on a fulltime basis in a training program that would move them back into employability.

This is an area we are presently considering now in our strategic planning group looking at human service needs in Ohio. And I would be delighted to send you the results of our deliberations if we have some suggestions that may be useful.

Mr. PEASE. I wish you would do that, because I think you are exactly on the right track. I run into people time and time again who would like to take training but simply can't afford not to get some kind of minimum wage job to try to put food on the table for their families. And it seems to me that we are shortsighted if we force people out of training because they do not have any money to sustain their families.

The CETA Program was a lot more successful than some people give it credit for, but it probably did put too much emphasis on sustenance and not enough on training. I think with the Job Training Partnership Act we may have gone too far in the opposite direction, and that some balance between the two, a better balance could be struck.

Governor CELESTE. One of the programs that we are very hopeful about in Ohio that has been undertaken in several other States with some success is a program we call Ohio Works. That attempts to use public assistance money, real commitments from employers in terms of dollars and services available through the Bureau of Unemployment Services to put people into real jobs with training and sustain them for a period of time. This is presently being undertaken on a pilot basis in Cleveland and Dayton. The early indications are very, very encouraging, but part of it—part of the question is whether we are allowed to somehow integrate programs that are described under very separate statutes, sections of Federal law administered by very different agencies of the Federal and State government. And frequently if you participate in one, you are automatically precluded from being considered for some kind of portion of assistance in one of the others.

That is part of what we need to understand better when it comes to tying together employment services, any kind of public assistance income support, and our training/vocational education programs.

Mr. PEASE. That would speak to the flexibility, which is one of the four recommendations that you made in your testimony.

Thank you very much, Mr. Chairman.

Thank you, Governor.

Chairman FORD. Mr. Campbell.

Mr. CAMPBELL. Thank you, Mr. Chairman.

Governor, I certainly want to welcome you here this morning and commend you on your very fine testimony. I think you have made some good suggestions to the committee. I also want to com-

mend you and your State as being one of those who took action to attempt to rectify the problem you had.

Let me ask you this, though. I noticed that Ohio's benefits were the sixth highest in the Nation on the average and the second highest maximum benefits paid in the Nation. You mentioned that you made some changes in benefits. Could you tell me today how much you've reduced or where you might be as far as the nation goes in the payment of benefits today in Ohio?

Governor CELESTE. I could not give you a national comparison, because I do not have it in front of me. I would be happy to get that and send it to you.

Mr. CAMPBELL. That would be fine. I am interested to see, because I looked at the big loans that are outstanding. Although about $3 or $4 billion have been repaid, we still have about $10 billion outstanding. I cannot help but notice that the States that have the majority of those loans are the ones that have the highest benefit payments in the country. I want to see where we stand now in those States. If you could submit that, I would certainly appreciate it.

Governor CELESTE. I would be happy to submit that to you.

Mr. CAMPBELL. Thank you, sir.

Chairman FORD. Governor, thank you, on behalf of the Governors' Association, as well as being Governor of the State of Ohio. We certainly appreciate your testimony, and your written testimony which will be made a part of the record, and those recommendations that you have given to this committee.

Again, thank you very much.

Governor CELESTE. Thank you very much, Mr. Chairman.

Chairman FORD. The subcommittee would like to call the Governor of the State of Illinois, the Honorable James R. Thompson, as the next witness before the subcommittee.

We, too, would like to welcome you, Governor, for your appearance before the subcommittee today, and we are very delighted to have you and look forward in hearing from you and your testimony.

The Chair would like to note that your written testimony will be made a part of the record. If you would like to summarize your statement before the committee, feel free to do so; but the written testimony will appear in its full text in the record.

Governor, once again, we are delighted to have you to come before the committee to share with us and give us this information today.

Governor Thompson.

STATEMENT OF HON. JAMES R. THOMPSON, GOVERNOR, STATE OF ILLINOIS

Governor THOMPSON. Mr. Chairman and members of the subcommittee, thank you. I will take advantage of your invitation to try and summarize my testimony this morning.

You have copies of the written testimony. I have made only one change in the copy of the written testimony that you have, and my staff will supply your staff with an edited version so that the per-

manent record does not contain a portion which I, upon reflection, did not want entered there.

There was in the middle of my testimony a request that this committee consider a legislative change that would lower the interest rate that States are now paying on their borrowings. I believe it is the responsibility of States to help this body cut the Federal deficit; and I do not believe it is the responsibility of States to try and go back and change decisions that were made earlier that would have the result of increasing the Federal deficit.

If we got ourselves into the position where States are at least partially at fault for having to borrow so much, though not entirely, I believe that we should be paying part of that penalty itself. So I do not want to suggest to you that we go back and reexamine that position of the interest rates. We cannot ask for free money if we are asking the Congress at the same time to lower the deficit, which hurts us in other ways. So when you come to that portion of my testimony, please consider that withdrawn.

Chairman FORD. Thank you, Governor.

Governor THOMPSON. Mr. Chairman and members of the subcommittee, I have come to you this morning for two purposes: First, in support of a specific bill which has been introduced into the Congress by the chairman of the House Ways and Means Committee, Chairman Rostenkowski from my State of Illinois; and second, to comment generally upon the issue of unemployment insurance and the problems that the Nation faces.

Last week in Chicago the chairman of the House Ways and Means Committee, Chairman Rostenkowski, in conjunction with the Chicago Association of Commerce and Industry, sponsored a small business expo, one of a series of continuing conferences around our State that have been sponsored in a round robin fashion by members of the Illinois congressional delegation in conjunction with local economic development groups. This was Chairman Rostenkowski's turn, and I had the privilege of introducing him to give the keynote speech at this conference.

And it was made clear once again as a result of the chairman's speech and of the deliberations of that conference that States like Illinois and I suspect every State of the Nation are counting heavily upon small business to help our States prosper and grow, thereby helping the Nation prosper and grow. We are counting heavily upon small business to help us diversify and thereby strengthen our economy—something that we very much need to do, not only for the long haul but to guard against the ill effects of another recession.

One of the traps, I think, into which some of our States fell in the recession that we have just now started to come out of has been that we had not moved quickly enough to diversify our economy, so that when some sectors went down, other sectors could sustain us. Small business offers us the greatest opportunity for diversification and strengthening, and in fact, it is estimated that more than 80 percent of all new jobs entering our economy are coming from small business. And so Governors have been acting with vigilance, I believe, to safeguard the interest of small business insofar as the business climate of their particular States were concerned, and hopefully have been vigilant at the Federal level as well, acting in

conjunction with their congressional delegations to safeguard the interest of small business there for those reasons.

We have a problem peculiar to Illinois, and for that reason I come to testify this morning in support of H.R. 6112, which Chairman Rostenkowski has introduced, which according to my understanding, applies only to the State of Illinois and carries no cost to the Federal Government.

When the Tax Equity and Fiscal Responsibility Act of 1982 was adopted, the Federal Unemployment Tax was increased from 3.5 percent to 6.2 percent, and at the same time the offset credit allowed employers in States whose laws met Federal guidelines was increased from 2.7 percent to 5.4 percent.

These changes, which take effect on January 1 of next year, pose little problems for most Illinois employers, but smaller employers, small business, those with less than $50,000 in quarterly wages, face a difficult problem which can be made more manageable with the provisions of H.R. 6112.

In Illinois the small employer cap stands at 3.7 percent this year—a rate that was boosted 1 percent from the original level approved by the Illinois General Assembly in 1981. This was done specifically to encourage small business expansion and growth during a very difficult period in the Illinois economy.

That 3.7 rate, the cap, as you know, is significantly lower than that rate, ready to take effect on the first of the year under the provisions of TEFRA—a tax rate that could place a burden on small employers in Illinois from which many may not recover.

In Illinois during the 1983 tax year, 52,000 employers were using the small employment tax rate. An immediate and sudden increase to the 5.4-percent rate represents a 46-percent hike in State taxes in 1 year. In more simple terms, the small employer would be required to pay $144 more a year for each employee to meet the new tax demands. For small businesses, especially those that must borrow to finance their unemployment taxes, that represents the possibility that they may go out of business.

In 1982 when TEFRA was passed, there was a provision that allowed for a phase-in of the higher tax rates, but unfortunately, the way the provision was written in TEFRA, it applies only to employers in New York and only to employers in the garment, construction and food industries.

We inquired of the Department of Labor whether we in Illinois because of our peculiar cap for small businesses could take advantage of this provision to be found in TEFRA, and when we were told we could not, we asked the chairman to introduce the bill, which he has.

Chairman Rostenkowski's bill addresses this problem with the phase-in system that I believe will help small businesses in Illinois adjust to the new tax rate. Under that plan the tax increase could be spread out over 4 years beginning in 1986 in Illinois, and it is a change that would remove a very real hardship to 52,000 employers in my State, 52,000 employers that we are looking to to help bring Illinois out of recession, to help diversify and strengthen our economy.

And so I appear here today to urge support for H.R. 6112. I spoke this morning with the Secretary of Labor, Mr. Donovan, and he as-

sured me that the administration does in fact support H.R. 6112. I believe a representative of the Department of Labor has so testified before this subcommittee, and we are pleased and grateful for that support.

My appearance here today can also serve another purpose, one that I am pleased to carry out. I last appeared before you in February of 1983 to report on the condition of the Illinois UI trust fund. At that time the signs of economic recovery were very much down the road. Since then, we have passed these signs and have entered a period of growth in Illinois' economy, a rebuilding program that has meant good news for the trust fund. We expect to repay $549 million of our unemployment insurance debt this year. Of that $549 million that we expect to repay, approximately $195 million can be attributed to a combination of higher Federal taxes and an improved economy. The great bulk of the repayment will come from our Illinois efforts to get our benefit and tax structure into line.

Let me at this time respond to a question that you, Mr. Chairman, asked Governor Celeste about the condition of the Ohio trust fund and how he got to where he was. We have been doing the same thing in Illinois.

In 1981 in a mansion summit in Illinois we achieved a $500 million reform of the UI system because we knew our system was structurally unsound. The responsibility for that $500 million settlement was borne equally by business and labor. We repeated that process again early in 1983, and this time the total package was about a $2 billion reform of the UI system with the costs borne in about a 2 to 1 ratio between business and labor.

Those mansion discussions lasted about 2 weeks. We reached an amicable settlement between business and labor in Illinois with the costs to be borne at a ratio that everyone thought was fair, and our legislature passed that $2 billion reform program in one week's time and passed it unanimously. So we are serious in Illinois on the issue of getting our trust fund in balance by structural changes in Illinois law, not just relying upon the beneficence of the Federal Government, because we realize that the bill comes back to us in the end as Federal taxpayers, and not just relying on the emerging economy in our State.

We believe that all three must be in place, and we are prepared to go back to the table at the Governor's mansion early next year looking for mansion settlement No. 3 of the finishing touches. And so of this year of the amount we will pay back, $105 million can be attributed to benefit changes in our State, and another $249 million as the result of Illinois tax changes on employers. We could not have achieved this without extraordinary cooperation between the business, labor and legislative communities of Illinois. And since I worked with the Democratic legislature in my State—I am the first Republican Governor ever to work with a Democratic legislature—it has obviously required a great deal of bipartisan cooperation which I am pleased to say that we have had in both parties and both houses and both communities.

Earlier this summer I completed my year as chairman of the National Governors' Association, a position that gave me the opportunity to work with my fellow Governors on issues, including the

country's joblessness problems. Part of that effort involved developing a national employment policy which was the subject of our summer meeting in Nashville. And in our work we called upon the President and the Congress to establish a bipartisan national commission on unemployment insurance.

I think that a thorough review of the unemployment insurance system is needed now to ensure its ability to address the problems of today's unemployed. We are in a period of economic growth. More people are working. The economy is expanding. Unemployment is falling or at least holding steady at this level. Interest rates have come down, but not far enough. Inflation has been reduced.

These are all good signs, but I believe we ought to pause while we are experiencing these good signs and address the future, for nobody knows for sure how long this recovery will last or what lies ahead of us. Momentous decisions, I believe, will have to be made by the next President and the next Congress, whoever they are, to address our Nation's economic future. I think we all agree on that, even if we may not agree on the details of how to get the job done or if those details have not yet emerged.

My view is that while we have this at least temporary pause in the severity of the unemployment problems which our nation encountered for the last several years, we ought to take the time to structurally look at the system so that we are prepared to cope with whatever lies ahead at whatever period of time in our future.

There are, in fact, other reasons to review the program. While the Nation's unemployment rate has been reduced, there are major structural changes taking place in our economy. These are structural changes that are not endemic to one region. When steel plants close in Illinois, they close in California as well. When autos and heavy manufacturing and farm implements use fewer people to gain productivity to compete with world markets, structural changes are taking place in industries that have nothing to do with the Nation's economic climate or with the business climate of any state, and we must recognize that for the long haul.

We need to determine the number of discouraged and underemployed workers. Workers do not necessarily show up in the mountain of statistics that are produced each month. We need to address the problem of unemployment levels in pockets of the country that remain high despite a recovery of the national economy. And we need to put greater effort to putting people back to work among minorities and young people.

In the first 50 years of the UI system there were few problems. Revenues were generally adequate to meet expenses. But within the last dozen or so years, shortfalls have become a regular occurrence. Because of structural changes in the economy, the nature of unemployment is different now from what it was when the system was designed.

Those changes will necessarily continue and may in fact expand as traditional industries change. So the strain on the system may well continue despite general recovery.

My belief is that these issues, like the social security issues, are best addressed by a bipartisan national commission. I have made that recommendation heretofore to this committee. I have made

that recommendation to the administration and directly to the President.

The Council of Great Lakes Governors met in Washington last spring, and a member of this subcommittee, Congressman Pease, supported our call for a commission; and I believe his support is on the mark.

I think in summation, Mr. Chairman, and members of the subcommittee, we have a chance now in this period of pause in the difficulties engendered by the strains on the unemployment system, to build for the future; and I believe we should take the time to do that.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF JAMES R. THOMPSON, GOVERNOR, STATE OF ILLINOIS

Chairman FORD, members of the subcommittee, I would like to thank you for this opportunity to testify of H.R. 6112 and several other important unemployment insurance issues.

I begin my remarks this morning by recalling that last week in Chiago, I had the pleasure of introducing Chairman Rostenkowski at the Small Business Expo, a gathering of hundreds of small business owners and managers from across Illinois.

The Expo, I believe, was a clear example of the kind of cooperation between government that's needed to solve the serious problems that we face. And they are very serious problems.

You have before you legislation that is of great interest to the small business represented at that Expo and the 52,000 other small Illinois firms affected by H.R. 6112. Illinois is no different than any other State; we rely heavily on small business for a vital, thriving economy. More than 80 percent of new jobs in Illinois are with small firms.

For that reason, I am here today to comment on and urge you to approve H.R. 6112, a measure introduced by Chairman Rostenkowski and one that will do much to ease the pain for small employers in Illinois.

When the Tax Equity and Fiscal Responsibility Act of 1982 was adopted, the Federal unemployment tax was increased from 3.5 percent to 6.2 percent. At the same time, the offset credit allowed employers in States whose laws meet Federal guidelines was increased from 2.7 percent to 5.4 percent.

These changes, which take effect on January 1, 1985, pose little problem for most Illinois employers. But small employers, those with less than $50,000 in quarterly wages, face a difficult problem that can be made manageable with the passage of H.R. 6112.

In 1981, the Illinois General Assembly capped the samll employer tax at 2.7 percent to encourage small business expansion and growth during a difficult period in the Illinois economy. The cap was increased to 3.7 percent in 1984 resulting in a 21 percent increase from the original 2.7 percent level.

That 3.7 percent rate, as you know, is significantly lower than that rate ready to take effect on the first of the year, a tax rate that could place a burden on small employers in Illinois from which many may not recover.

In Illinois during the 1983 tax year, 52,000 employers were using the small employer tax rate. An immediate and sudden increase to the new federally mandated 5.4 percent rate represents a 46 percent hike in Federal taxes, a huge increase. In more simple terms, a small employer would be required to pay $144 more a year for each employee to meet the new tax demands. For some small businesses, such a change has the potential to put them out of business.

Although the 1982 act provides for a phase-in of higher tax rates, the measure was written in a way that applies primarily to employers in New York's garment, construction, and food industries.

Chairman Rostenkowski's bill addresses this problem with a 4-year phase-in system already enjoyed by New York and one that I believe will also help small businesses in Illinois adjust to the new tax rate.

It is a chance that removes the very real hardship that would be placed on small businesses in my state. But in no way does this change violate the principles already established in the legislation.

I support Chairman Rostenkowski's bill and urge the members of this panel to do the same.

My appearance here today also serves another purpose, one that I am pleased to announce. In February of last year, I appeared before you to report on the condition of Illinois' UI trust fund. At that time, the signs of economic recovery were down the road. Since then, we have passed those signs and have entered a period of robust growth in Illinois' economy, a rebuilding program that has meant good news for our trust fund.

We expect to repay $549 million of our unemployment insurance debt this year. We have taken the steps needed to repay the Federal Government and not relied entirely on a growing economy.

We, in Illinois, realized that changes were needed to repay our debt to the Government. We made those adjustments. Of the amount we will pay back this year, $107 million is from benefit changes and another $249 million is the result of tax changes in Illinois.

The success of our solvency effort is the result of hard work and regular, ongoing cooperation between business, labor, and government in Illinois. Despite that effort, we are not where we want to be.

We, in Illinois, have made every effort to reduce our debt and we are always open to suggestion.

However, our success in reducing our debt, the changes called for in H.R. 6112, or even making the debt more manageable, will not solve the basic problems of the UI system.

While we are now in the midst of an economic recovery that is moving faster than any of us had anticipated, the problems associated with a deep recession still remain.

One of the problems is that this robust recovery masks deep-seated trouble. Simply stated, the problem is that this Nation has an unemployment insurance system that is hopelessly archaic.

We have a 1935 program—one that has been patched over the years but never replaced—that is trying to meet conditions of the 1980's. Unfortunately, the solutions of 50 years ago have no relevance to the conditions of today.

This vehicle needs an overhaul—and needs it badly. As Governor of a major industrial State and someone who talks to businessmen and women every day, our current unemployment insurance system reminds me of the television commercial where the auto mechanic points to a dead engine that didn't have a good oil filter, looks stone-faced into the camera and says, "You can pay me now or you can pay me later."

For States like Illinois, we are paying now . . . and we're paying later. We are paying for an economic condition—unemployment—that we, as States, have no real control over. For unemployment is a condition driven by national and international forces, not by anything we do at a State level.

And yet States and their businesses are the ones penalized for unemployment levels. During a recession, we burden our firms with higher UI taxes while we, in State government, try to determine how to meet the basic needs of our people and pay unemployment interest penalties at the same time. In between recessions, we're still paying off our debt . . . in fact, right up until the time we're slapped in the face by the next recession.

We can't afford to keep paying now and later. For example, had Illinois paid the national average for benefits from 1974 through 1983, and taxed at the national average for the same period, we still would have had a $2 billion debt. In other words, over 80 percent of Illinois' current unemployment insurance debt problem is due to factors beyond our control.

We need to begin now to develop an unemployment insurance vehicle that will meet the needs of the 1980's and beyond.

Because of structural changes in the economy, the nature of unemployment is different now from what it was when the current system was designed. These changes will continue, and so will the strain on the UI system.

We need to determine who should have responsibility over key parts of the unemployment system.

Should States be held accountable for decisions at the national and international level that those States cannot control?

Should States be held accountable when the dollar is overvalued and hurts the employment position of major exporting States like Illinois?

And should we revise a basic tenet of the unemployment program—from one that provides basic income maintenance during difficult times to one that encourages employment, not unemployment, through job training?

Earlier this summer, I completed my year as chairman of the National Governors' Association, a position that gave me the opportunity to work with my fellow Governors to address the country's jobless problems. Part of that effort involved developing a national employment policy. In our work, we called upon the President and Congress to establish a bipartisan national commission on unemployment insurance.

We are in a period now of economic growth. More people are at work now than ever before. The economy is expanding. Unemployment has been on a steady decline. Interest rates have fallen. Inflation has been reduced. We have an opportunity now to overhaul this system and avoid trying to do it in the midst of our next crisis. For these reasons, there is no better time than now to review the UI system and make adjustments.

When the Council of Great Lakes Governors met in Washington last spring, Congressman Pease supported the call for a commission. His foresight is on the mark. But it is many months later and we are no closer to developing a comprehensive solution for the system today than we were last March.

The need for an in-depth study that can find the answers to our questions remains. A bi-partisan commission can fill that need.

A strong unemployment insurance system is essential if we are to help American workers adapt to a changing economy. We cannot afford to skim over the problems that we are recovering from, because if we do, we will pay for it later.

We must make difficult choices now to avoid painful ones later.

We must work together to make sure the country's unemployment insurance system does not collapse under the weight of debt and recessions that have come and gone.

That, in combination with the current help that could be given to our small businesses, can do much to ensure that our economy is one that sees more peaks than valleys, that our people see more jobs than joblessness and that we have a system that meets the needs of States in a fair and equitable manner.

Chairman FORD. Thank you, Governor.

Governor Thompson, what is the unemployment rate in the State of Illinois?

Governor THOMPSON. 8.6 percent.

Chairman FORD. 8.6 percent?

Governor THOMPSON. Yes, sir.

Chairman FORD. We had the Deputy Secretary of Labor here before the committee, Mr. O'Keefe, earlier today, and we were talking about States with unemployment rates still at 9 and 10 percentage points, and we were somewhat concerned about the Federal Supplemental Program along with the extended benefit program or unemployment benefits in general for States with high unemployment.

I was just wondering inasmuch as you have taken the position that during these economically distressed times when Illinois and other States found themselves borrowing from the trust fund in large dollar amounts from the Federal Government, and now, I guess, a year ago you might have testified or submitted to the committee that some assistance was needed as it related to the interest payments on the borrowing from the trust fund. I am glad to hear you say today that you found ways and means to cultivate that with significant changes in your tax structure or whatever in the State of Illinois, to repay it at the sum of some $550 million in this year that you are paying back to the trust fund. We are very proud of that. We do feel we must make significant changes as they relate to a series of these extensions, temporary extensions on unemployment, whether it is the EB or the FSC or whatever it might be.

I think the subcommittee today has shown its intent to move forward in trying to have some legislation ready on or before the March 31 date to revamp the Federal Supplemental Program in a

way and in a fashion that States and also the 8½ million people who are unemployed, and to address some of their critical problems as it relates to unemployment compensation.

Governor, what do we do at this point? We are saying that the recovery is there, but yet still you are telling me that unemployment in Illinois is 8.6 percent. What are we going to say to the unemployed? The administration has talked about the Job Training and Partnership Act. Is it going to make the big difference in your state, in your urban areas? And I know in one big city, Chicago there, unemployment is a major problem, more so for blacks and even more so for black teenagers.

How do we address this problem? The recovery is there. It is back. America is back, but back for whom? I mean we are addressing this critical issue of unemployment and unemployment compensation as it relates to the Federal perspective, as well as what States will be doing other than saying well, we are going to continue to borrow from the trust funds, and we do not need any more relief as it relates to the interest payments on those dollars that we borrowed from the trust fund.

But how do we respond to the hard-core unemployed? How do we respond to those who have been out of the work force for a long period of time that have exhausted all of the benefits, whether they are state unemployment compensation benefits or the Federal supplemental benefits, and they just do not have any additional income, disposable income.

Governor THOMPSON. Mr. Chairman, you have not posed an easy question.

Chairman FORD. I am not looking for a direct answer to that question.

Governor THOMPSON. Well, let me try, if I can.

I think America is coming back—and I say that with no partisan overtone—but it has not yet come back for everyone, and it will be a long time coming back for some. And I think we have to recognize that, and we cannot blind ourselves to the fact that significant parts of our population are hurting, and we must find ways to address their distress.

My hope is that JTPA will be part of that help. My hope is that special programs that this Congress has passed and the President has signed lending aid to workers in industries impacted by foreign trade will help.

The problems go beyond that, though. They go deeper than that. I guess one of the reasons why the States originally objected to paying interest on trust fund borrowings was because, as I said, I think, in my testimony a year ago, we considered it to be a tax on unemployment, and that that unemployment was not caused by anything of our making at the State level.

I still believe that philosophically, but the longer I am in this job, and the more I look at Federal-State relationships, and the more I understand the problems of our economy that are aggravated by the current Federal deficit, I really cannot support measures that in cumulation would do nothing but drive the deficit up and avoid State responsibility for some of these issues, which is why I said at the beginning of my testimony I was not going to ask you today to take down the interest payments. We will pay that out of State

general revenue fund. We think that is an obligation. The days of free money ought to be over.

I think one of Illinois' problems today, why our unemployment continues to track higher than the national average is because we are a state that is particularly hurt with the effects of the Federal deficit. I believe that there is a strong link between the size of the deficit and the strength of the dollar. The strength of the dollar today hurts exporting States. There is no State that exports more than Illinois.

And so when you have got price differentials of 25 or 30 percent between Caterpillar's products, a company that impacts heavily on the economy of seven or eight major population centers in downstate Illinois, and Kamatsu's products, we are going to lose markets, and once markets are lost, they are not easy to get back. So in that sense the deficit particularly hurts Illinois.

Illinois is one of those rare States that has a combination of reliance upon traditional industries—steel, automaking, agriculture implements, heavy machinery. All of those industries are changing generically. They are using fewer people. That is how they are squeezing out productivity. That is how they are meeting both foreign and domestic competition. That hurts Illinois, especially when it goes on at once.

I believe that part of the answer to the problem really calls upon the States individually in some instances to do more. Take education for example. Several of my brother Governors have spearheaded efforts in their States to dramatically increase the quality of education, which I believe has a great deal to do with employment down the line, both at the elementary and secondary levels, and at the higher education levels as well, and in so doing they have dramatically increased State resources available for greater State support of education.

I am willing to undertake such a program in Illinois if I can receive from the educational establishment the kind of reforms that are necessary to persuade State taxpayers to part with more State tax dollars. Whether that can be accomplished or not is something that remains to be seen in Illinois.

I would like to see a greater devolution back to the States in some areas of both tax sources and programmatic responsibilities while maintaining a strong Federal presence supported by Federal tax dollars in areas that are appropriate to the Federal Government because they address common national problems like unemployment insurance, for example, like the unemployment system.

I believe we need to have a strong Federal presence there, because so much unemployment, especially cyclical unemployment, can be traced to monetary policies and fiscal policies and economic policies that are beyond the control of any State.

And so, I think we need to look again at the partnership, Mr. Chairman, between the States and the Federal Government to sort out our roles a little differently. Now, the Governors were never able to get together with the President on this aspect of the new federalism. That does not mean that we should not try.

I know the Congress continues to be interested in the issue, but I think we have to strike all across the board, and we have to try everything we can, especially to get at the pockets of unemploy-

ment among our minority youth, for example, in the cities of Illinois.

We have to look at the changing nature of the farm economy. It is going to take many fewer people to produce the same kind of grains we are now producing. Where are those people going to work? They cannot traditionally go to the town and find work as they did 10 or 20 years ago. There are whole sets of populations that need to be attended to.

Chairman FORD. Governor, rather than a series of temporary supplemental extensions, would it not be better to have in place a permanent program that provides additional weeks of benefits when we have an economic downturn that will pop up here and there?

And you have stated earlier we do not know when we might be faced with another severe recession, with high unemployment jumping once again, because right now we are still faced with about 7.5-percent unemployment. We are not out of this recovery yet.

And we mentioned earlier that for some people in this country, they have been able to see America come back again, but I contend that they have seen it all along. It has never left them. And the people that we are concerned with are those that have slipped into poverty, and those who are unemployed, and those who are partially employed, and those who are underemployed, and women and children in this country.

And I think that we have to be concerned, but I am also concerned about seeing this subcommittee report to the full committee some kind of legislation that will in fact address this problem in case there are somewhere in the near future some crises that will be created again, and the downturns will once again face us, not only here in your State but all over this Nation.

Governor THOMPSON. I would support that, Mr. Chairman. I think we need to do something on a permanent long-term basis, a rational program for unemployment compensation reform, rather than staggering from crisis to crisis, because we know that economic times are cyclical, and it has nothing to do with whether we have a Republican President or a Democratic President or a Democratic Congress or a Republican Congress.

There are forces in the country and in the world larger than American politics, and we need to guard against them, especially at a time when the nature of our economic reliance in terms of our traditional industries is undeniably changing in the face of foreign competition.

Look, for example, at the decision the President will have to make on the ITC recommendations on the steel industry, and how we deal with those steel products not covered by the ITC recommendations. It is just another example of the kind of changed economic conditions that we find in the world today that we did not find 20 years ago.

And I think to the extent that Federal law which is designed to smooth out the hills and valleys and to help people through the harder times to the extent that Federal law comes on a more permanent, more reliable basis, and a more encompassing basis rather than to have the Congress meet quickly and approve temporary

changes in benefits or temporary extensions, with all kinds of formulas that constantly change, and have States come down here and petition to get under one formula or another, as we had to do for the last 3 or 4 years, obviously, the way that you are suggesting, Mr. Chairman, I think is the way to go.

Chairman FORD. Thank you very much, Governor. On H.R. 6112, the chairman's bill that was introduced and that is before the committee before you today, I want to thank you for your testimony on that bill. With bipartisan support coming from the Governors and the administration is in full support of it, I would hope that the full committee chairman will find time to schedule this bill, and I am almost certain that the subcommittee will report this bill out in the very near future, and hopefully the chairman will find time to schedule the bill before the full committee.

Governor THOMPSON. Thank you. I pledge to take my best bipartisan efforts over to the other side of the Capitol and speak to the Senators.

Chairman FORD. Thank you.

Mr. Campbell?

Mr. CAMPBELL. Thank you, Mr. Chairman.

Governor, I too want to thank you for your testimony. I also want to tell you that the State of Illinois reaches all the way down to the State of South Carolina, because yesterday I received a phone call from Mr. Jack David from my State to tell me to be sure and be here, and to be sure and tell you that Sally Ward of your State had been in touch with him, and that he was doing his job. I have a great deal of respect for Jack David, and he has a great deal of respect for Sally Ward in your State, and I think you have done a good job.

I recall about a year ago when we were discussing what had to be done, and I commend you for your position that the States do maintain their obligation to pay the interest on the funds. We are in an economic recovery, and I was interested in the testimony you gave concerning the strength of the dollar in answer to a question. That does impact us. It impacts this country very drastically.

There is another aspect to it. The deficit obviously does impact the strength of the dollar because of the interest rates. The other side of that, of course, is that the world was in a recession, and not just the United States, and that the United States has pulled out and the world has not. Therefore the currencies in other countries are still low, and we should hope that as they improve, we will correct that imbalance, because it affects my part of the country as it does yours. It is something that is larger than the United States by itself, and I am glad you pointed that out.

I also was interested in the answer to the question concerning unemployment and pockets, who was impacted by it. I have looked at this very carefully for quite some time, and of course we have the job problem. Is there a job available? That is an initial problem. But we also, as we examine it, and I want to ask you this.

If you would agree, or would like to comment on the point that once you are beyond the job problem then you are into a skill problem, an education problem, or a training problem. As we look at the large pockets of unemployment, by and large we can equate a lower skill to the group or an education problem.

I was delighted to hear you say that you were seeking to get the education establishment to make the necessary reforms to in the State of Illinois in order to strengthen your education system.

My State has just done that. My Governor has done it. I am not sure that we got all of the reforms we should have gotten from the educational establishment. I, of course, was concerned and alarmed to read the testimony the other day or the report the other day that said that about half of the school teachers going into teaching really should not be going in.

I think that is a problem, but these are all problems dealing with unemployment.

You mentioned the Job Training Partnership Act. It is a part of the problem, and I hope that we can learn from any success that we have with the Job Training Partnership Act, and of course correct anything that may need to be corrected. But I am convinced that it is a move in the right direction, and I am convinced that education and skills are one of the major causes of unemployment once we begin an economic recovery, not the cyclical problems of the country.

Let me go directly to something for just a minute. You referred to the tax on unemployment that you came back and elaborated on just a little bit as the interest really being a tax on unemployment.

We looked at this before, and I commend you, because Illinois has taken some strong steps, but as we looked at this we seem to find a relationship between the debt level and the benefit level and the lower employee payment level in the various States.

In other words, the system was essentially out of balance the whole time, and had to be corrected, and it took the recession to point it up. Is that basically—is that correct, that last statement?

Governor THOMPSON. Mr. Campbell, I think that is fair to say. I think when we Governors talked about a tax on employment, that is the interest charges on the borrowings from the Federal Government. I think that phrase really arose during the depths of recession, when we were really despairing about what we could do at the State level to help our people on the one hand.

We saw State levels of revenues slipping drastically on the other hand, because our State taxes were not bringing in what they were before recession, and we thought that, gosh, this is just one more load on us, the change in Federal policy, and it is really unfair, because most of our unemployment is being caused by Federal policies, not State policies.

Well, time partially heals wounds, and because we are recovering, and because we now see I think even more clearly a relationship between the Federal deficit and some of the economic factors which produce unemployment, Governors are becoming more loathe to ask for things from the Federal Government that would increase the Federal deficit.

And so it is a very dicey balance that we have when we come before you and ask for programs or appropriations, and I think Governors as a whole today, I know individually in the case of Illinois, are much more loathe to ask Washington for something that we are going to end up paying for anyway and pretending that it is not costing the Nation anything.

I think it is true to say that the reason that Illinois had to borrow so heavily is twofold. Our system did get out of balance back in 1975 or thereabouts because it was politically popular to pay large unemployment benefits and to tax your employers at too low a rate to pay for them.

Both sides were pleased, and as long as you were not in recession, nobody really got hurt. When you went into recession and you had to borrow to make up not only the increased unemployment that was not contemplated, but the disparity between the taxes and the benefits, we really got into trouble.

That old, easy attitude in Illinois, that it is the Federal Government's money, we can borrow it for nothing, why should we care about our tax benefit ratio, is gone, because in my administration we have twice now and we will at least once again alter the benefit tax ratio to bring our system into line.

But I think, Mr. Campbell, we have to look at one other thing, too, and that is that we have done a lot of studies, and they seem to show that even if Illinois had been taxing and paying benefits at the national average, we would still have a significant debt. That debt is traceable to unemployment, which is caused by problems beyond our control or beyond our structure, and so we need to go at it from both ends.

Mr. CAMPBELL. I concur with your latter statement certainly. I do believe that we have problems, and that we need to take a look at the whole system, and a comprehensive look, not a piecemeal look.

I think we are in agreement on that on both sides of the aisle. I also would like to tell you that we are in agreement on both sides of the aisle on H.R. 6112, and Chairman Ford said he did not anticipate us having any problem getting it out. I do not anticipate the chairman having any problem scheduling the bill in the full Committee, so we thank you for your testimony.

Governor THOMPSON. Thank you.

Chairman FORD. Governor, thank you very much for taking time from your busy schedule to appear once again before the subcommittee. We are always delighted to have you come before the subcommittee and to enlighten us as it relates to the issues which are set out in those press releases.

Once again, we would like to thank you for your testimony and appearing before the committee.

Governor THOMPSON. Thank you. Mr. Chairman, if we in Illinois could be of any assistance to you and the members of the subcommittee in drafting the kind of comprehensive program that you discussed this morning, we would be more than happy to do it.

Chairman FORD. That is very kind of you. Thank you very much, Governor.

The next two witnesses are a member of the committee, Mr. Don Pease, and Mr. Clinger from the Northeast-Midwest Congressional Coalition.

The second bells have already sounded. There is a vote on the House floor. The Chair would like to say that we will recess for 10 minutes, and that will afford all of us an opportunity to go vote along with the other members of the subcommittee, and we will come back at 12:35 and hear Mr. Pease and Mr. Clinger.

[Recess.]

Chairman FORD. The subcommittee will come to order.

The Chair will recognize Mr. Don Pease, the very able and capable member of this subcommittee, and one who has been in the forefront of Federal supplemental compensation legislation as well as other legislation centered around the unemployment problem which we are faced with in this country, and along with him is Mr. Clinger of Pennsylvania.

We are delighted to have you before the committee, and we not only welcome you, Mr. Pease, but you know that you have a strong voice on this committee, and we look forward to hearing your testimony at this point, Mr. Pease.

STATEMENTS OF HON. DON J. PEASE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO, AND HON. WILLIAM F. CLINGER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA, COCHAIRS, TASK FORCE ON UNEMPLOYMENT INSURANCE, NORTHEAST-MIDWEST CONGRESSIONAL COALITION

Mr. PEASE. Thank you very much, Mr. Chairman. That is the second gracious introduction you have given me today. I do not think I will press my luck and go for a third.

It is a pleasure to appear before you, and it is also a pleasure, I would add, to appear beside you and to serve as a member of the subcommittee with you. I think you have provided distinguished leadership for the subcommittee, and it has been a pleasure for me to serve as a member of it under your leadership.

Chairman FORD. Thank you very kindly.

Mr. PEASE. Mr. Chairman, Bill Clinger and I are pleased to have the opportunity to testify today as cochairs of the Task Force on Unemployment Insurance of the Northeast-Midwest Congressional Coalition. I am sure you recognize that we in the Northeast, Midwest know, if anybody does, what unemployment is about and what the requirements are for helping unemployed workers.

In addition to ourselves, the task force includes Representatives Jim Oberstar, Nancy Johnson, Bernard Dwyer, Jim Moody, Marcy Kaptur, and Bob Davis. We really do commend you for holding this hearing on proposals for comprehensive reform of the current unemployment insurance system, a topic of growing importance to public policy makers and private sector leaders within our region and to the millions of workers who each year become unemployed through no fault of their own.

It is essential that we begin building broad-based support for a comprehensive proposal that would simplify and improve the unemployment insurance system at the Federal level for the States and for its beneficiaries, namely, the American people at large.

We must act now if we want to safeguard our unemployment insurance safety net from any economic eventuality we might face. Too often, Congress spends its time reacting to crises, crises that could have been avoided with a little foresight. Unfortunately, this has been the case with our Nation's system of unemployment compensation, especially in recent years.

I certainly do not have to remind the chairman of the way we have had to literally pass FSC legislation at the 11th hour, and sometimes beyond the 11th hour in recent years. The system has been patched up whenever an emergency has presented itself. Indeed, many of us have been involved in the Band-Aids usually applied to aid the system.

However, these short-term measures and last-minute congressional actions do not guarantee the reliable system of assistance that we owe our unemployed and their families and the communities in which they live.

Mr. CLINGER. Mr. Chairman, I, too, would like to express my appreciation to you for holding this hearing today and say that today's session on the current Federal-State unemployment insurance system could not have come, we believe, at a better time, at a time when we are in the midst of an economic recovery, a time when many sectors of the Nation are on the mend.

As we saw last year at the hearings held just about a year ago today, it is very difficult to legislate and debate the long-term effects of alternative proposals when the Nation is in the throes of a recession, and when the deadline for extending benefits is closing in.

Even though the trend across the Nation is toward reemployment, reform becomes even more important when we look at pockets of high unemployment that still remain, like Clarion County in my district in Pennsylvania, where unemployment now runs at about 15.1 percent, and in Pennsylvania as a whole, where the unemployment rate is 10.5 percent.

It seems to us that today's hearing affords us a unique opportunity, a chance to take advantage of the time we will have until the FSC program expires on March 31, 1985, to begin work in earnest on a reformed UI program.

I think we must not let the current economic recovery, which is more vigorous, perhaps, than anyone expected, and its concurrent drop in unemployment rates lull us into a false sense of security and reduce our will to act.

While the recent rates of economic growth and expansion are real and welcome signs of better times, we must not forget the 10.7 million people who were unemployed last year, the 8.5 million who remain out of work this year, or the 1.3 million discouraged Americans who have stopped looking for work and who no longer are included in our official unemployment statistics.

We must also remember that unemployment is unlikely ever to return to the relatively low levels of the 1970's, as our country continues to undergo a major economic transformation from a goods producing economy to one based increasingly on services, technology, and information.

Mr. PEASE. Mr. Chairman, it is because of our concerns over these rapid changes in the economy, the cyclical nature of our economy, and the perceived inability of the current unemployment insurance system to withstand another recession that we come before you to urge the subcommittee to act boldly and to call for the enactment early next year of a comprehensive reform package that will restore fairness and logic to our system of unemployment insurance.

Mr. Chairman, parenthetically, I would just remind the members of the subcommittee that we do not have very much time. Another 3 weeks from now we will have adjourned, hopefully for the rest of the year, and by the time we get organized in January we will have, if we are lucky, 6 weeks to go before we have the expiration of the current program.

So, I am hopeful that we might on the subcommittee have another hearing or two, maybe even field hearings during the remainder of this year, so that we can get the Committee record behind us and perhaps move into markup early in February.

We know it will not be an easy task to do all of this, but it is a challenge that we believe must be undertaken and a responsibility that must be accepted. We pledge the support of the coalition's Task Force on Unemployment Insurance to your efforts in this regard.

Specifically, we urge the subcommittee to use H.R. 3863, the Extended Unemployment Compensation Act of 1983, as introduced in the Senate by Senators Heinz and Byrd, and in the House by Representatives Stark, Kaptur, and myself, as its blueprint for action.

It is an exciting and thoughtful overhaul of our EB/FSC program which we believe will not only help us address the needs of currently unemployed workers, but also prepare us for the economic realities of the future. It will help us avoid the waste of time and needless hardship inflicted on the unemployed by lengthy debate on the details of FSC every time we go through economic difficulties.

It is clear that a system of extended compensation is necessary, and if we take the time now to reform the program in a sensible and comprehensive manner, everyone will be better off. In its scope and its initiatives, H.R. 3863 offers a positive, forward-thinking approach to comprehensive UI reform.

Mr. CLINGER. In this context, Mr. Chairman, we would now wish to outline for the subcommittee eight fundamental concepts and generic principles which we believe are essential to any long-term reform of our Nation's unemployment insurance program.

First, a new, permanent, unified program of extended unemployment insurance benefits would in our opinion or should in our opinion be established similar to the one that is proposed in H.R. 3863, replacing the existing programs of extended and Federal supplemental benefits.

We believe the effects and administration of such a program, which also, I might add, was recommended by the National Commission on Unemployment Compensation in 1980, would be more predictable, more responsive, and more efficient.

It would allow for swift and prompt reaction to major economic dislocations because a permanent program of extended compensation triggered automatically by a State's unemployment rate already would be in place.

Under such a program, the unemployed would know ahead of time what benefits they were entitled to and how long they would last. This would contrast sharply with the present unemployment insurance system which requires continued legislative action to provide FSC benefits.

As Mr. Pease has alluded to earlier, indeed, during the last recession it was not until unemployment reached 10 percent that Congress and the administration enacted an FSC program.

In addition, we believe one permanent, consolidated program of benefits beyond the initial 26 weeks with one set of criteria instead of two would make the unemployment system easier and simpler to implement and understand for both its administrators and its recipients. We are only too well aware of the complexities of the current system and the problems they have caused, both for those out of work and for those charged with administering the program.

For the unemployed, these complexities have led to unnecessary anxiety, confusion, and frustration. For those State officials who have to adapt their UI systems to continual change, they have been called a nightmare.

As Governor Thompson alluded to this morning, in addition to stress on the part of an already overburdened system, they have meant ever changing triggers, new benefit periods and regulations, different computer programs, retraining of staff, and the costs associated with all of these.

Mr. PEASE. Mr. Chairman, I am aware that we have a vote on. So I am going to summarize the remaining paragraphs.

Chairman FORD. And your full text will be made a part of the record, Mr. Pease.

Mr. PEASE. Thank you.

Another important concept is that the financing of the new program should be arranged with a sliding scale so that as a State's unemployment rate increases, the Federal Government pays an increasing share of the benefits. This provision is one of the most important components of H.R. 3863.

The truth is that unemployment is a national problem, one caused to a large extent by trade, fiscal, and monetary policies, that cannot be solved and should not be expected to be solved at the State or local level primarily. We believe that in the future, this sliding scale would be an important tool to help high unemployment States minimize their UI debts, at least that portion incurred to provide extended benefits.

And we heard about the problems of the debt this morning from Governor Celeste.

Mr. CLINGER. Mr. Chairman, the new program also should include in the Federal financing share a sliding scale between FUTA revenues and general revenues so that the higher the level of unemployment, the higher the general revenue contribution.

Another provision which we would urge for your consideration is that the new program of extended compensation benefits should be structured so that the States with the highest levels of unemployment receive the greatest number of weeks of benefit. We are still studying the cost and other implications of the specific level of benefits, the number of weeks, and the length of the benefit duration periods embodied in H.R. 3863, and we would certainly hope to be able to have those submitted to you for your consideration.

Mr. PEASE. Mr. Chairman, we also believe that the new program should be triggered by a State's total unemployment rate, the so-called TUR, rather than its insured unemployment rate, the IUR. As the Chairman knows, and mentioned this morning when the ad-

ministration witness appeared before the committee, no State is currently triggered onto extended benefits because of the IUR, and we believe that the TUR would be a much more reliable gauge of the real need for unemployment compensation benefits.

We recognize that there are difficulties with achieving a meaningful TUR, but it occurs to us that those difficulties ought to be overcome once and for all so that we can get on to a more realistic standard for determining whether a State would or would not trigger onto extended benefits.

Mr. CLINGER. Second, in support of the idea that the TUR be the measure, the TUR, which is criticized because it is based on a statistical survey and is not an actual count, is in our view really more comparable across State lines than the IUR.

Third—and I would point out also that it is presently available for counties and many subcounty areas, while IUR's are not. Third, although the TUR meets BLS's standards of reliability in only 10 States, we believe that with an expanded statistical base, it could be made available for the country as a whole.

And finally, if the subcommittee chooses not to use the TUR as the sole trigger of the new program, it should adjust the current 13-week and long-term IUR measures to include all workers receiving unemployment benefits.

Mr. PEASE. The new program of extended compensation, we believe, should allow for the use of substate triggers. In many, many States across the country, there is a relatively low rate of overall unemployment for the State which hides pockets of very high and persistent unemployment, and we believe again, while there are problems with substate triggers, those problems can be overcome, and ought to be as early as possible, so that we can again proceed on a sensible program which recognizes that not all areas within a given State are the same.

Mr. CLINGER. We are pleased that H.R. 3863 includes some incentives to provide that the Unemployment Insurance Program include incentives for job search, training, and retraining, and work sharing. We have used the program in the past simply as an Income Maintenance Program for the unemployed, so we would applaud the provision that the unemployed be required to participate in 1 week of intensive job search program administered by the State employment service.

Another, I think, would encourage employees to participate in training programs while they are collecting unemployment insurance benefits. We think that is a very positive addition to the program.

Mr. PEASE. Mr. Chairman, we also believe the new program should maintain the changes made in recent years that provide some relief to States in debt to the Federal Government. These provisions, though limited, are very important to the States of our region and throughout the country that were forced to borrow from the U.S. Treasury to pay unemployment claims during the past three recessions.

In conclusion, Mr. Chairman, it may appear to you that we come before you today because a comprehensive reformed unemployment insurance program automatically would benefit our region of the country. While we hope that is true, we do not know that to be the

case. We do not know, nor can we predict what the next economic cycle will bring, nor where it will bring it.

During the 1974–76 recession, it was the Northeast, the New England and Middle Atlantic States that suffered the most. In the last recession, it was the industrial Midwest that was hit the hardest. New England unemployment rates were rather healthy compared with those in our own States of Pennsylvania and Ohio. Perhaps next time it will be another region of the country that will be hurt the most.

Mr. CLINGER. The only thing we do know, Mr. Chairman, for sure is that the comprehensive UI reform package we outlined earlier in our statement is intended to help those States and localities that suffer the greatest long-term unemployment during the next recession and are in most need of assistance.

We thank you for your attention.

[The prepared statement follows:]

JOINT STATEMENT OF HON. DONALD J. PEASE, AND HON. WILLIAM F. CLINGER, CO-CHAIRS, TASK FORCE ON UNEMPLOYMENT INSURANCE, NORTHEAST-MIDWEST CONGRESSIONAL COALITION

Mr. Chairman and Members of the Subcommittee, we are pleased to have the opportunity to testify before you today as co-chairs of the task force on Unemployment Insurance of the Northeast-Midwest Congressional Coalition. In addition to ourselves, the task force includes Representatives Jim Oberstar, Nancy Johnson, Bernard Dwyer, Jim Moody, Marcy Kaptur, and Bob Davis. We commend you for holding this hearing on proposals for comprehensive reform of the current unemployment insurance system, a topic of growing importance, to public policy makers and private sector leaders within our region and to the millions of workers who each year become unemployed through no fault of their own.

It is essential that we begin building board-based support for a comprehensive proposal that would simplify and improve the unemployment insurance system at the federal level, for the states, and for its beneficiaries—the American people at large. We must act now if we want to safeguard our unemployment insurance safety net from an economic eventuality we might face.

Too often Congress spends its time reacting to crisis—crises that could have been avoided with little foresight. Unfortunately, this has been the case with our nation's system of unemployment compensation, especially in recent years. It has been patched up whenever an emergency has presented itself. Indeed, many of us have been involved in the "band-aids" usually applied to aid the system. However, these short-term measures and last-minute congressional actions do not guarantee the reliable system of assistance that we owe our unemployed, their families, and the communities in which they live.

Mr. Chairman, today's session on the current federal-state unemployment insurance system could not have come at a better time—a time when we are in the midst of an economic recovery; a time when many sectors of the nation are on the mend. As we saw last year, it is very difficult to legislate and debate the long-term effects of alternative proposals when the nation is in the throes of a recession and when a deadline for extending benefits is closing in. Even though the trend across the nation is toward reemployment, reform becomes even more important when we look at pockets of high unemployment that still remain, like Clarion County in my district in Pennsylvania, where unemployment now runs at 15.1 percent, and in Pennsylvania as a whole, where the unemployment rate is 10.5 percent. It seems to us that today's hearing affords us a unique opportunity—a chance to take advantage of the time we will have until the FSC program expires on March 31, 1985—to begin work in earnest on a reformed UI program.

We must not let the current economic recovery, which is much more vigorous than anyone expected, and its concurrent drop in unemployment rates lull us into a false sense of security and reduce our will to act. While the recent rates of economic growth and expansion are real and welcome signs of better times, we must not forget the 10.7 million people who were unemployed last year, the 8.5 million who remain out of work this year, or the 1.3 million discouraged Americns who have stopped looking for work and who no longer are included in our official unemploy-

ment statistics. We also must remember that unemployment is unlikely ever to return to the relatively low levels of the 1970s as our country continues to undergo a major economic transformation from a goods-producing economy to one based increasingly on services, technology, and information.

Mr. Chairman, it is because of our concerns over these rapid changes in the economy, the cyclical nature of economy, and perceived inability of the current unemployment insurance system to withstand another recession that we come before you to urge the subcommittee to act body, and to call for the enactment, early next year, of a comprehensive reform package that will restore fairness and logic to our system of unemployment insurance. We know this will not be an easy task, but it is a challenge we believe must be undertaken, and a responsibility that must be accepted. We pledge the support of the Coalition's Task Force on Unemployment Insurance to your efforts in this regard.

Specifically, we urge the subcommittee to use H.R. 3863, "The Extended Unemployment Compensation Act of 1983"—introduced in the Senate by Senators Heinz and Byrd and in the House by Representatives Stark Pease, and Kaptur—as its blueprint for action. It is an exciting and thoughtful overhaul of our EB-FSC program that we think will not only help us address the needs of currently unemployed workers but also prepare us for the economic realities of the future. It will help us avoid the waste of time and needless hardship inflicted on the unemployed by lengthy debate on the details of FSC each time we go through economic difficulties. It is clear that a system of extended compensation is necessary, and if we take the time now to reform the program in a sensible and comprehensive manner, everyone will be better off. In its scope and its initiatives, H.R. 3863 offers a positive, forward-thinking approach to comprehensive UI reform.

In this context, Mr. Chairman, we now wish to outline for the subcommittee eight fundamental concepts and generic principles we believe are essential to any long-term reform of our nation's unemployment insurance program:

A new, permanent, unified program of extended unemployment insurance benefits should be established, similar to that proposed in H.R. 3863, replacing the existing programs of extended and federal supplemental benefits. We believe the effects and administration of such a program—which also was recommended by the National Commission of Unemployment Compensation in 1980—would be more predictable, more responsive, and more efficient. It would allow for swift and prompt reaction to major economic dislocations, because a permanent program of extended compensation, triggered automatically by a state's unemployment rate, already would be in place. Under such a program, the unemployed would know ahead of time what benefits they were entitled to, and how long they would last. This would contrast sharply with the present unemployment insurance system, which requires continued legislative action to provide FSC benefits. Indeed, during the last recession, it was not until unemployment reached 10 percent that Congress and the administration enacted an FSC program.

In addition, we believe one permanent, consolidated program of benefits beyond the initial 26 weeks, with one set of criteria, instead of two, would make the unemployment system easier and simpler to implement and understand for both its administrators and its recipients. We are only too well aware of the complexities of the current system and the problems they have caused, both for those out of work and for those charged with administering the program. For the unemployed, these complexities have led to unnecessary anxiety, confusion, and frustration. For those state officials who have to adapt their UI systems to continual change, they have been called a "nightmare." In addition to stress on the part of an already overburdened system, they have meant ever-changing triggeers, new benefit periods and regulations, different computer programs, retraining of staff, and the costs associated with all of these.

The financing of the new program should be arranged with a sliding scale so that as a state's unemployment rate increases, the federal government pays an increasing share of the benefits. This provision is one of the most important components of H.R. 3863. The current EB program—which treats equally all states that trigger "on," regardless of their unemployment level—is not equitable and, in many cases, limits the effectiveness of the program. By uniformly paying 50 percent of EB claims within a state, is can have the perverse effect of driving up spending substantially and increasing payroll taxes and UI debts in those states with the highest levels of unemployment. This makes little sense to us. It runs counter to the stabilizing function of our nation's unemployment insurance system, reinforcing rather than mitigating the effects of economic dislocation.

Unemployment is a national problem—one caused, to a large extent, by trade, fiscal, and monetary policies—that cannot be solved at the state or local level. It is

not fair that states with high unemployment already hit hardest by the recession and in dire economic straits, also should be forced into financial disarray in order to provide benefits to their long-term unemployed. It should be recognized that this situation usually results in ever-increasing state payroll taxes, which serve as disincentives for employers to add new employees to their payrolls and may even lead to greater unemployment—with the greatest increase in taxes falling on those states that have the most severe economic problems and are home to firms that have the greatest need of new hires. Mr. Chairman, a sliding scale of federal financial participation would go a long way towards alleviating this problem.

In addition, we believe that in the future this sliding scale would be an important tool to help high unemployment states minimize their UI debts—at least that portion incurred to provide extended benefits. As you well know, the three recessions during the last decade came too close together for state unemployment insurance trust funds to build up adequate reserves. As a result, a majority of states were forced to borrow from the U.S. Treasury to pay their unemployment claims. By the end of this fiscal year, states are expected to still owe the federal government $10.4 billion, down from $13.2 billion in fiscal 1983. Twelve of the 26 states that still owe money are located in the Northeast-Midwest region, but together they account for 85 percent of the debt.

The new program also should include in the federal financing share a sliding scale between FUTA revenues and general revenues so that the higher the level of unemployment, the higher the general revenue contribution. We think this provision, which is contained in H.R. 3863, is justified by the experience of the last decade, which showed that FUTA revenues were not designed to withstand the burdens of recessions. Indeed, the current FSC program is funded solely with general revenues.

The new program of extended compensation benefits should be structured so that states with the highest levels of unemployment receive the greatest number of weeks of benefits. This is to the way the current FSC program is structured now with different tiers of payments for different levels of unemployment. We believe this approach, which also is set forth in H.R. 3863, is inherently much fairer to both the states and the unemployed than the "all or nothing" approach of the current EB program. Mr. Chairman, at this time, we still are studying the costs and other implications of the specific level of benefits, the number of weeks, and the length of the benefit duration periods, embodied in H.R. 3863. Please be assured that we will keep you apprised of our findings.

The new program should be triggered by a state's total unemployment rate (TUR) rather that its insured unemployment rate (IUR). Each state's number of eligible weeks also should be determined by using the TUR. Unlike H.R. 3863, which allows a state to choose between its TUR or its IUR, we believe the TUR should be the sole trigger and determinant of benefits in each state. We realize that both the TUR and the IUR are valid measures of joblessness. However, in recent years, both have come under great scrutiny and criticism. We recommend the TUR over the IUR for several reasons.

First, the TUR, unlike the IUR, includes a state's long-term unemployed in its measure of joblessness. The IUR counts as unemployed only those who are receiving regular state UI benefits. Those receiving extended and federal supplementary compensation benefits, as well as those who have exhausted their benefits, are omitted from the IUR measure of unemployment. Because of this, we do not believe the IUR adequately reflects economic distress in many parts of the country. This is particularly true in the Northeast-Midwest region, where in 1983 almost 29 percent of those out of work were jobless for more than 26 weeks. The long-term rate in Pennsylvania was 33 percent, and in Ohio 35 percent. In contrast, only 20 percent of those out of work in the South and West were unemployed for more than 26 weeks.

Indeed, it is at least partially because of the IUR methodology that last September only two states were eligible for extended benefits, even though 28 states had unemployment rates of 9 percent or greater, and the national rate was 9.5 percent. Today, only Puerto Rico is eligible for extended benefits.

Second, the TUR, which often is criticized because it is based on a statistical survey and is not an actual count, is more comparable across state lines than the IUR. The IUR measure is affected by differences in state laws and administrative practices, and therefore is not uniform among the states. In addition, TURs currently are computed for countries and many sub-county areas, while IURs are not.

Third, although the TUR currently meets BLS's standards of reliability in only ten states, we believe that with an expanded sample size, estimates could be developed that would conform to BLS's tests of accuracy and timeliness. Specifically, we look to the provision in H.R. 3863 that requires BLS to expand by a factor of three

its sample size for determining the TUR. We realize that increasing the sample size threefold will entail additional costs, but we believe the $100 million it is estimated by ICESA to cost is well worth it—especially if you consider the fact that this year alone we will spend almost $17 billion on unemployment benefits. In fiscal 1983, we spent $29 billion on UI benefits.

Finally, if the subcommittee chooses not to use the TUR as the sole trigger of the new program, it should adjust the current 13-week and long-term IUR measures to include all workers receiving unemployment benefits.

The new program of extended compensation should allow for the use of substate triggers. This proposal, which is not in H.R. 3863, is designed to remove the inequities that arise from the use of statewide triggers only. Statewide triggers do not address—and, indeed, ignore—the fact that areas within a state may suffer from extremely high and prolonged unemployment, even though the state's overall unemployment rate may be below the "trigger rate" for the new extended compensation program. We do not think such a system is fair. We do not believe the long-term unemployed in areas of high unemployment should be denied benefits just because they live in low unemployment states.

We know that what we are proposing is controversial, and that the Department of Labor, in a recent report, claimed that substate triggers currently are not feasible. However, the report also stated that "there are a number of components already in place which could be used in the design of a specific program . . . [the] implementation of such a substate program may be technically possible if proper lead time and resources are made available." We realize the establishment of substate triggers will take time, but unless we move now to lay the groundwork, we may never establish them. It is essential that this subcommittee begin immediately to develop the statistical methodology needed for a workable substate trigger.

In addition, Mr. Chairman, if after further study the subcommittee does not feel it can authorize substate triggers nationally, we think that at least you should modify the extended compensation program proposed in H.R. 3863 to allow states to use substate triggers if they so choose.

The current unemployment insurance program should be modified to include incentives for job search, training and retraining, and work sharing. In the past, we have used unemployment insurance simply as an income maintenance program for the unemployed. It is time we also used it as a tool to help keep people at work and to train the unemployed; as a tool to help unemployed workers find new jobs and speed their adjustment back into the labor market.

One such modification is included in H.R. 3863. It would require the unemployed to participate in one week of an intensive job search program administered by state Employment Service offices before they would be eligible to receive their extended compensation.

Another encourages states to allow their unemployed to participate in training programs while they are collecting unemployment insurance benefits. The federal standard adopted by Congress in 1970 bars states from disqualifying UI claimants in state-approved training programs on the grounds that they are unavailable, or not making an active search for work, or have refused an offer of suitable work. But the same law also allows the states to develop their own criteria for what is state-approved training, and to establish their own regulations for implementing the program.

Because of this provision, states vary greatly in their administrative practices regarding whether persons receiving UI actually may participate in training programs, and in fiscal year 1982 only one-fourth of one percent of that year's 7 million UI claimants were enrolled in training. This percentage probably has increased in the last two years due to incentives introduced by the Job Training Partnership Act.

Allowing UI recipients to receive training makes good sense if it will hasten their re-absorption into the labor force. The potential return to the individual and the economy might even be viewed as an offset of any UI costs incurred. The federal government should encourage the states to do more in combining UI and training by adopting legislation that would allow UI payments made to persons in education or training programs to count toward interest a state might owe on funds borrowed from the federal government to cover UI costs. Such an approach would build on usages already allowed under JTPA, where UI payments to Title III participants may be counted for up to half the required state match.

A third possible modification of the basic UI program would be for the federal government to facilitate the use of work-sharing programs, such as those in California, Maryland, Arizona, Oregon, Washington, and Florida. Work sharing, or part-time compensation, offers an alternative to layoffs by providing partial UI payments to compensate for general reductions in work hours spread broadly across an em-

ployer's work force. The program benefits employees by allowing them to maintain a skilled work force, and helps employees by distributing unemployment without significant reductions in income.

At a minimum, the new program also should maintain the changes made in the recent years that provide some relief to states in debt to the federal government. These provisions, though limited, are very important to the states in our region, and througout the country, that were forced to borrow from the U.S. Treasury to pay unemployment claims during the past three recessions. According to the Department of Labor, the following states were granted fiscal relief in 1983 under these provisions:

The FUTA credit decrease.—This provision aided 13 states—Arkansas, Connecticut, Delaware, Illinois, Kentucky, Michigan, Minnesota, New Jersey, Ohio, Pennsylvania, Rhode Island, Vermont, and West Virginia—plus the District of Columbia, Puerto Rico, and the Virgin Islands;

Interest deferrals.—Eight states—Illinois, Kentucky, Michigan, North Dakota, Ohio, Pennsylvania, West Virginia, and Wisconsin—plus D.C. qualified for a deferral of interest due to the federal government;

Discounted rates.—Four states—Michigan, Ohio, Pennsylvania, and Wisconsin—plus D.C. qualified for a discount on their interest rate;

High unemployment interest delay.—Two states—Michigan and West Virginia—qualified for a delay in payment of interest.

In conclusion, Mr. Chairman, it may appear to you that we came before you today because we that a comprehensive, reformed UI program automatically would benefit our region of the country. While we hope that is true, we do not know that to be the case. We do not know—nor can we predict—what the next economic cycle will bring, nor where it will bring it. During the 1974-1976 recession, it was the Northeast—the New England and Mid-Atlantic states—that suffered the most. In the last recession, it was the industrial Midwest that was hit the hardest. New England unemployment rates were rather healthy compared to those in our own states of Pennsylvania and Ohio. Perhaps next time it will be another region of the country that will be hurt the most.

The only thing we do know for sure is that the comprehensive UI reform package we outlined earlier is intended to help those states and localities that suffer the greatest long-term unemployment during the next recession and are in most need of assistance.

Thank you for your attention to our suggestions, and we would be pleased to answer any questions you may have at this time.

Chairman FORD. Due to the time, I am just going to make it very short and recognize Mr. Campbell here, but I think it goes without saying that, Mr. Pease, we felt in the first session of this Congress, when we reported out the extension for 18 months for the Federal Supplemental Program, we felt at that time that we should have taken up the bill that you and Mr. Stark along with Mr. Heinz and Byrd on the Senate side had introduced, and we promised ourselves at that particular time that we would before the expiration of the 18-month extension that we would look at some comprehensive reform package to address those critical needs for the unemployment compensation.

And I would say that this session today to hear from all of the witnesses that we have scheduled today is a clear indication that we are going to try to move in that direction. As to what piece of legislation will be the final product, I do not think any of us know at this particular time, but we are in fact going to try and move in a fashion with provisions within a bill that will in fact strengthen and hopefully will address many of these problems that you have already pointed out in your testimony today.

We do have plans for another hearing, and hopefully, Mr. Pease, you have made a request from the committee, and hopefully we can go into the Ohio area for the next session.

At this time I would recognize Mr. Campbell.

Mr. CAMPBELL. Thank you, Mr. Chairman.

I, too, want to thank you for your testimony, and I think that it is recognized by all members that we are going to have to take a hard look and a comprehensive look at the whole program It is too early to know what we will come up with. I am interested, though, in your section on substate triggers.

Just very briefly, what unit do you think would be best utilized for that, a county unit? How would you go to a substate trigger if you just had to offer it offhand?

Mr. CLINGER. I think it is probably true that the best data at the present time, at least, would be on the countywide basis.

Mr. CAMPBELL. Thank you.

Mr. PEASE. On the other hand, the SMSA's would probably make more sense in terms of an economic unit if we could manage to aggregate the data for an SMSA.

Mr. CAMPBELL. I appreciate that. We will discuss this a little bit later.

Chairman FORD. There are only about 4 minutes left, so the subcommittee will stand in recess until 1:30.

[Recess.]

Chairman FORD. The Subcommittee on Public Assistance and Unemployment Compensation will come to order.

Hon. Marcy Kaptur is here as a witness, and we would like to call upon you at this time as the next witness before the committee.

We have also had your Governor testify before the committee today, and along with our colleague and member of this committee, Mr. Pease, has already appeared before the subcommittee and testified today on the unemployment system and Federal Supplemental Program.

At this time the Chair will recognize you, Ms. Kaptur.

STATEMENT OF HON. MARCY KAPTUR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Ms. KAPTUR. Thank you, Mr. Chairman.

I want to commend you personally for holding this hearing on comprehensive reform of the unemployment compensation system, and as you have remarked, the presence of our Governor, and with Congressman Pease from the Lorain area in Ohio, and myself from the greater Toledo area in Ohio serves to point up the great need we feel exists in our State for the type of comprehensive reform you are seeking, and I truly hope this will be the first in a series of hearings that will lead to the passage of comprehensive reform legislation early next year.

I am going to submit my full testimony for the record, and I will summarize for the benefit of yourself and the committee.

Chairman FORD. Your full written statement will be made a part of the record, and you may summarize.

Ms. KAPTUR. All right, Mr. Chairman. Thank you very much.

I just want to start by saying that I think we all agree on the basic principles of a sensible unemployment insurance system. We all want to provide reasonable aid to those who have lost their jobs, and especially to those who have difficulty finding new jobs. We want a system that is understood by all, and one which is sensitive

to the needs of employees, employers, and administrators at the Federal, State, and local levels.

We certainly want a system that helps the unemployed find new jobs. And finally, we want a system that does not punish the States that suffer most in economic downturns, and judging the current unemployment compensation system by these standards, it is painfully evident that the current approach must be reformed. I would like to just touch on six of the areas which I would hope that the committee would favorably consider.

First of all, the inadequacy of current benefit levels in certain situations; second, the necessity for a new trigger mechanism; third, the need to replace the current temporary multitiered system with a simple Federal unemployment insurance system. Fourth, greater sensitivity to the employer's perspective and the employer's needs.

Fifth, modification of the unemployment insurance system to provide positive adjustment assistance to workers so they do not end up in the situation where they are led to believe that after 26 weeks something will happen, and all that happens is, they end up falling off the edge with no alternatives.

And finally, a need to further explore answers to solve the problems of States like Ohio, which have this long-term unemployment compensation debt problem.

Let me just begin on the benefit level question by saying an inexcusably low percentage of the unemployed receive unemployment insurance benefits, and over the last year, even when the unemployment rate was more than 9 percent in any given month, only a third of the unemployed received unemployment benefits.

I know that you have heard a lot of testimony in this regard, but I just wanted to reemphasize it. In recent months, the percentage of unemployed receiving benefits dropped to an historic low of less than 30 percent, and in contrast, in 1975, almost 80 percent of those who were deserving of benefits received them.

This low coverage rate is partially attributable to the rise in the number of long-term unemployed, and this is certainly a problem that we understand directly in the State of Ohio. The weeks of benefits provided are simply insufficient to meet the needs of the long-term unemployed, and as a result, many fall off the rolls.

What has been interesting to me in tracking the experience in my own district, when we looked at the welfare rolls in my home county, the largest county in my district, Lucas County, we find there are over 8,000 more families in the last 3 years that have fallen onto the welfare rolls who are the newly unemployed.

They are the long-term unemployed who are now having to sell all of their assets, falling onto welfare rolls, and they disappeared from the count, and yet they are there. They are the people that go into many of our churches for the evening and noontime feeding programs and so forth. And it is as though our country has turned our back on them, and we are not really saving any money in terms of total tax dollars, because our States and counties are having to pick up the cost of these newly unemployed who have not found work.

Chairman FORD. Do you suggest that they are not counted in that 8.5 million people who are unemployed?

Ms. KAPTUR. No, they are not; because of the way that the formula is calculated, and they essentially drop off the rolls once they stop receiving the benefits, if they were ever counted to begin with.

Chairman FORD. Would they be considered the new poor then?

Mr. KAPTUR. I do, yes; and these are people who have never been on welfare before, people who very much want to work. For them the thought of even going into a welfare office is repugnant, and they come up to our office, our congressional office, and ask me for help in finding a job.

They say, Marcy, I really do not want to sit at home. I really do not want to be on welfare benefits. Can you not find me gainful employment? It is one of the most tragic situations that still lingers in an area like ours, which is so heavily industrial.

So, I believe that we have to fill this assistance gap for the long-term unemployed, and examine options in the unemployment compensation system that would make it easier for dislocated workers to become eligible for basic benefit programs and for transitional benefits.

A second area I want to cover is the trigger mechanism, because I really got into this a lot last year when we were working on the additional extensions of unemployment in the Congress here. Another reason for the low coverage rate is the inadequacy of the triggers for the Federal unemployment insurance programs.

The current triggers fail to reflect the extent of unemployment in a given State. The insured unemployment rate, the IUR, does not include all persons who receive extended benefits, supplemental benefits, or who have exhausted or who never received unemployment insurance benefits, and most notably this formula excludes the long-term unemployed that we have just been talking about.

Thus, States with severe economic dislocation and substantial long-term unemployment often have low insured unemployment rates. This shocked me last year when we were dealing with the legislation. I looked down the list for Ohio, and our number triggered down, and we had one of the highest unemployment rates, real unemployment rates in the Nation. So, I knew something was very wrong with the formula, and I think that we got an intolerable result.

A trigger should reflect the true nature of unemployment in the State, and most of all, it should capture the long-term unemployed. The best alternative trigger would be one which our citizens are most familiar with, the total unemployment rate, in my judgment.

A TUR trigger would not only more truly reflect the unemployment problems in a State, but would also serve the objective of being easily understood.

Third, I wanted to talk about a permanent unemployment compensation system. A permanent Federal unemployment insurance system would eliminate the confusion, anxiety, and hardship that recipients of the current FSC Program suffer whenever a program expires.

Our congressional office is inundated with telephone calls. All of us remember the uncertainty last year during the elaborate Federal unemployment compensation negotiations and debates, and my office was one of those that was besieged by calls from current or

potential unemployment recipients trying to understand what was going to happen to them.

The two-tiered system, the Federal system and the extended benefits Federal approach also should be replaced. These two Federal tiers on top of the State tier make for a needlessly complicated unemployment insurance structure. In fact, I think it almost takes a Ph.D. in government to try to understand the totality of the UC system presently.

The two-tiered Federal approach is particularly ludicrous given the inadequacy of the extended benefits program itself. The EB Program was designed to help the long-term unemployed in States especially hard hit by economic times, yet in the past, long-term unemployed in States with extraordinarily high unemployment rates were not eligible for extended benefits.

For example, in my home State of Ohio, since May 1983, the unemployment rate has stood at double digit levels and above, as our Governor summarized. Many of the unemployed truly were dislocated workers from the basic industries, automobile, steel, glass, machine tools, shipping.

Nevertheless, Ohio's unemployed were not eligible for extended benefits during this period.

Fourth, I wanted to talk about employers' needs. Many small business people and medium-sized business people have come to see me on this question. The contribution of employers to the unemployment compensation system is absolutely essential for its solvency.

At the same time, we should be careful to design a system that does not place unnecessary burdens on employers, especially in States that are trying to dig themselves out of recession and move to a better world of the future.

Small businesses, for example, find the current design of the system unsuitable because of the front loading of the tax, and I would really beg your committee's consideration of this. Since only the first $7,000 of wages is subject to a Federal tax, State taxes are often applied to a somewhat higher wage base.

The bulk of the taxes by businesses are paid at the beginning of the year, and the payment schedule truly creates a cash-flow problem for many small businesses that have been living in lean times for almost 5 years now. A well designed system would be more responsive to the needs of employers without it imperiling the fund's solvency.

Many employers have told me they will not hire additional employees because they have to pay that big money in the first quarter of the year, so they are buying products from out of State or from out of country in order to manufacture, and yet they are not putting more people on their own payrolls.

We should for starters investigate the feasibility of spreading out employer payments over the entire year so as to eliminate cash flow problems.

Fifth, I want to address positive adjustment assistance, and I think if I were to put a priority on my own recommendations, this would almost be No. 1. With the recent and continuing transformation of the manufacturing base in areas like our own and the related dislocated worker problem, we must examine how to turn the

unemployment insurance system into a positive adjustment employment system.

The unemployed cannot find new jobs on their own soon enough. Therefore, the Government's response to unemployment must go beyond temporary income support, and we must integrate the unemployment compensation system at the Federal level, the State level, and all of the programs we have for job training and placement into a brandnew system.

And I would also like to encourage the committee because of what I have seen happen with our own welfare programs in our area and the newly unemployed falling onto those rolls to take a serious look at the linkages between those various programs we have in place at different levels of government.

I truly believe with a comprehensive reform we could save the taxpayers money, and we could better serve people who need to move into a different job market. Such an approach will help provide the unemployed with what they really need, not a check from the Government but a check from an employer, and it will also save the Government money as workers will be placed in productive jobs as soon as possible.

There are a number of ways in which the unemployment insurance system could be tied to a positive adjustment assistance program. One would be to provide additional weeks of unemployment insurance to workers who have exhausted their regular benefits but are in a training program, or to begin those training programs earlier while they are still on unemployment insurance.

Another would be to provide unemployment benefits to part-time workers so employers would have the incentive, as they do in Europe, to keep workers on at a reduced work schedule instead of laying them off or severing them completely.

A third approach would be to change the nature of unemployment insurance benefits themselves. They could be allocated up front in a lump sum perhaps so as to defray moving expenses or to pay for retraining expenses in the person's home community.

I think all of these alternatives are worth exploring, and I know you are thinking about them yourself, and I just believe, seeing what is happening in my own area, we have to think more creatively at the national level about how to deal with the problem of the long-term unemployed. We have seen their numbers increasing across the Nation since the early 1970's.

And I would like to suggest to the committee that perhaps we could develop a few model situations in certain stricken counties across this country in the form of some sort of a demonstration or model program testing any one or a combination of the options that I have talked about.

I think that an area like our own in the Toledo area would be one such excellent laboratory in which to test the benefits of these proposals to the dislocated workers, and when we could really look at new linkages between the various levels of unemployment and the other job training programs, the retraining programs we have in place, the welfare system, and so forth.

Finally, I just wanted to mention the State debt. I know our Governor covered it very completely, but we should be very conscious of the special burdens that are placed on a State like Ohio and con-

sider the possibility that the economy does turn downward again. Unemployment insurance costs will rise again and compound the problem of already indebted States.

I think a fair Federal-State cost-sharing approach can be established in States suffering from tough economic times should not be further weighted down by skyrocketing unemployment insurance costs.

I am going to submit for the record, Mr. Chairman, an article that was in the Washington Post written by Stuart Eizenstat and Bill Spring, on some proposals for major reform of the unemployment compensation system, and I would just like to end by saying I really think we as responsible Members of Congress have to look back to the programs that were created 30 and 40 years ago and move to a new generation of domestic programs in this country.

This one, the unemployment compensation system, is at the heart of it, and I think that we should not just be looking upon the unemployment compensation system as an income support program, but rather, we should use it as a practical tool to help people in transition, to keep them at work, or to retrain them for jobs in the future.

I thank you very much for your attention and willingness to hear us out on this important issue to our State.

[The prepared statement and article referred to follow:]

STATEMENT OF HON. MARCY KAPTUR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. Chairman, I want to commend you for holding this hearing on comprehensive reform of the unemployment insurance system. I hope this will be the first in a series of hearings that will lead to the passage of comprehensive reform legislation early next year. A number of fundamental problems with the unemployment insurance system became apparent during Congressional consideration of the most recent extension of the Federal Supplemental Compensation program. Another extension of the FSC program that does not address these basic problems would represent a failure of public policy and would be a disservice to millions of unemployed Americans.

Mr. Chairman, I think we can all agree on the basic principles of a sensible unemployment insurance system. We want a system that provides reasonable aid to those who have lost their jobs, and especially to those who will have difficulty finding new jobs. We want a system that can be understood by all, and which is sensitive to the needs of employees, employers, and administrators. We want a system that helps the unemployed find new jobs. Finally, we want a system that does not punish the states that suffer most from economic downturns.

In judging the current unemployment insurance system by these standards, it is painfully evident that the current approach must be reformed. I would like to elaborate on the following points:

(1) The inadequacy of benefit levels.
(2) Tne necessity for a new trigger mechanism
(3) The need to replace the current temporary, multitiered system with a simple, federal unemployment insurance system.
(4) Greater sensitivity to the employer's perspective.
(5) Modification of the UI system to provide positive adjustment assistance.
(6) The need for further steps to solve the state UI debt problem.

BENEFIT LEVELS

An inexcusably low percentage of the unemployed receive unemployment insurance benefits. Over the last year, even when the unemployment rate was more than nine percent in any given month, only a third of the unemployed received unemployment benefits. In recent months the percentage of unemployed receiving benefits dropped to an historic low of less than 30 percent. In contrast, in 1975, almost 80 percent of the unemployed received benefits.

This low coverage rate is partially attributable to the rise in the number of long-term unemployed. The Center on Budget and Policy Priorities found that there are nearly one million more long-term unemployed today than there were in April 1980 when the overall unemployment rate was comparable. The weeks of benefits provided are simply insufficient to meet the needs of the long-term unemployed. As a result, many fall off the rolls.

I represent a District where the pain of long-term unemployment remains for thousands of dislocated workers and their families. I can attest that life is especially cruel for those who have exhausted their benefits. Unless they sell off almost all their hard-earned assets, they do not qualify for minimum food stamps or other welfare assistance. Many are forced to rely on a charity system that cannot cope with the magnitude of their problems.

We must fill this assistance gap for the long-term unemployed. They should be eligible for more weeks of UI benefits. Since UI benefits alone cannot sustain a family, we should also examine options that would make it easier for dislocated workers to become eligible for basic benefit programs.

TRIGGER MECHANISM

Another reason for the low coverage rate is the inadequacy of the triggers for the federal UI programs. The current triggers fail to reflect the extent of the unemployment problem in a state.

The Insured Unemployment Rate (IUR) formula does not include all persons who receive extended benefits, supplemental benefits, or who have exhausted or never received UI benefits. Most notably, this formula excludes the longest of the long term unemployed. Thus states with severe economic dislocation and substantial long-term unemployment often have low IUR's and their unemployed do not receive the maximum available weeks of FSC benefits.

This is an intolerable result. A trigger should reflect the true nature of the unemployment problem in a state, and thus, most of all, it should capture the long-term unemployed. The unemployed in those states with the most troubled economies are going to have the most trouble finding new employment. They deserve the maximum available weeks of benefits.

The alternative long-term IUR formula temporarily papered over the problems with the regular trigger. But this alternative only made a difference for a short amount of time. A better option must be developed. The best alternative trigger would be the one which our citizens are most familiar with—the total unemployment rate. The TUR trigger would not only more truly reflect the unemployment problems in a state, but would also serve the objective of being easily understood.

A PERMANENT SYSTEM

A permanent federal unemployment insurance system would eliminate the confusion, anxiety and hardship that recipients of the FSC program suffer from whenever the program expires. All of us remember the uncertainty last year during the elaborate FSC negotiations. My office was one of many that was besieged with calls by potential or current FSC recipients who rightfully wanted to know their financial fate. The economically strapped unemployed should not have to suffer from the fear of the unknown and from the accompanying inability to plan ahead. A permanent program should be established.

The two-tiered FSC and Extended Benefits federal approach also should be replaced. These two federal tiers, on top of the state tier, make for a needlessly complicated unemployment insurance structure. It should not take a degree in government to figure out the unemployment insurance system. This complexity is not only unfair to the unemployed, it also serves to confuse the objectives of the system.

The two-tiered federal approach is particularly ludicrous, given the meekness of the EB program. The EB program was designed to help the long-term unemployed in states especially hard hit by economic times, yet in the past the long-term unemployed in states with extraordinarily high unemployment rates were not eligible for extended benefits. For example, in my home state of Ohio, since May 1983 the unemployment rate has stood at double digit levels and above. Many of the unemployed were dislocated workers. Nevertheless, Ohio's unemployed were not eligible for extended benefits during this period.

EMPLOYER NEEDS

The contribution of employers to the UI system is absolutely essential for its solvency. At the same time, we should be more careful to design a system that does not

place unnecessary burdens on employers. Small businesses, for example, find the current design of the system unsuitable because of the frontloading of the tax. Since only the first $7,000 of wages is subject to a federal tax (state taxes are often applied to a somewhat higher wage base), the bulk of the taxes are paid at the beginning of the year. This payment schedule creates a cash flow problem for small businesses.

A well-designed UI system would be more responsive to the needs of employers without imperiling the fund's solvency. We should, for starters, investigate the feasibility of spreading out employer payments over the entire year so as to eliminate cash flow problems.

POSITIVE ADJUSTMENT ASSISTANCE

With the recent and continuing transformation of the manufacturing base, and the related dislocated worker problem, we must examine how to turn the unemployment insurance system into a positive adjustment assistance system. The unemployed cannot find new jobs on their own. Therefore, the government's response to unemployment must go beyond temporary income support. We must integrate the UI system into the job training and placement system. Such an approach will help provide the unemployed with what they really need, not a check from the government, but a check from an employer. It will also save the government money, as workers will be placed in a productive job as soon as possible.

There are a number of ways in which the unemployment insurance system could be tied to a positive adjustment assistance program. One would be to provide additional weeks of unemployment insurance to workers who have exhausted their regular benefits but are in a training program. Another would be to provide UI benefits to part-time workers, so employers would have the incentive to keep workers on at a reduced work schedule, instead of laying them off altogether. A third approach would be to change the nature of unemployment insurance benefits. They could be allocated in a lump sum up front, so as to defray moving expenses, or to pay for training expenses.

All of these alternatives are worth exploring. We must think more creatively about how to aid the long-term unemployed. A demonstration program, testing any of these options would be useful. I think the Toledo area would be an excellent laboratory in which to test the benefits of these proposals to the dislocated worker.

STATE DEBT

States owe the federal government an enormous amount in loans borrowed to pay unemployment compensation; currently, the figure is $10.6 billion. Actions to eliminate this debt included a sharp rise in unemployment taxes in states like my own, as well as cuts in state benefits. This imposes a substantial burden on hard hit industries and their employees. Now is an appropriate time to investigate whether this burden is disproportionate. We should also consider the possibility that if the economy does turn downward, unemployment insurance costs will rise again and compound the problems of indebted states.

I think a fairer federal-state cost sharing approach can be established. States suffering from tough economic times should not be further weighed down by skyrocketing unemployment insurance costs.

LEGISLATIVE OPTIONS

A number of bills have been introduced to reform the unemployment insurance system. Representatives Stark, Pease and I have introduced H.R. 3863, a bill which was originally introduced in the Senate by Senators Byrd and Heinz. This legislation is a good starting point for comprehensive reform of the unemployment insurance system. In particular, the bill would revise the trigger mechanism; consolidate the FSC and EB programs; and set up a new federal-state cost sharing formula.

This legislation can certainly benefit from the suggestions of all interested parties. Furthermore, it will take time, for example, to devise the best trigger or cost sharing approach. I believe, however, that the fundamental problems with the UI system are apparent and that we are well on the way to developing solutions to these problems. I am confident that if we move expeditiously, an excellent reform proposal can be crafted this year. By the time the current FSC program expires in March, Congress can then replace an ineffective UI system with one that is fair, comprehensible, and which aids the adjustment of dislocated workers. Let us act now, so that this important objective can be achieved in a timely manner.

[From the Washington Post, Sept. 9, 1984]

. . . And the Chance to Help the Jobless Before They Get That Old

(By Stuart E. Eizenstat and William Spring)

The worst recession since World War II is over for most Americans and the recovery is in its second year. But unemployment is unlikely to return to the relatively low levels of the 1970s, tens of thousands are underemployed and many of our basic industries continue to decline, even as some experts foresee a new recession ahead.

Disagreeable as all this may be, it does provide us with a unique opportunity. We still have time to correct the weaknesses in America's unemployment-insurance program before the next economic downturn. In place of a program that now provides only temporary cash benefits, we should install a long-term employment system that encourages employers to retain workers during economic slowdowns and provides incentives for the unemployed to be retrained and reemployed.

Still-idle auto workers in Michigan and laid-off steelworkers in Pennsylvania might be surprised to learn of the help people like themselves receive in countries with far better unemployment-insurance systems than our inadequate one.

If they lived in West Germany or one of nine other western nations, they might not have lost their jobs at all, despite hard times. Employees in those countries do not face the harsh choice ours do between full-time work or full-time unemployment. Firms facing economic downturns can put workers on short weeks knowing that their pay will be supplemented by unemployment insurance that is available to part-time workers.

In Sweden and several other western countries, unemployed workers with long work histories are eligible not only for unemployment insurance, but also for government-supported retraining programs to enhance their future as workers and to make them productive taxpayers, rather than recipients of government aid. Japan will extend benefits for up to two years if the unemployed individual is in a retraining program.

Canada also provides unemployment benefits during training courses, and for six weeks thereafter, so newly proficient persons have time to acquire a job. And in the Netherlands, individuals can retain their benefits even after finding a job, if they are part of an on-the-job training program.

If they are handicapped or older and live in Japan, they qualify for even more help, through an allowance that helps them pay for necessary clothing and transportation when they first find a job.

And if they had been laid off in countries as disparate as Socialist President Francois Mitterrand's France or Conservative Prime Minister Margaret Thatcher's England, they might be eligible to receive up to six months of their unemployment benefits in a lump sum, to help them start their own business, with added technical assistance to provide budding entrepreneurs with a better chance of success.

In America we have used unemployment insurance simply as an income-support program for the unemployed. But with premanent changes in the structure of our economy now creating a new class of unemployed or underemployed blue-collar workers, it is time to adopt the approach of our western allies and use unemployment insurance as a practical tool to help keep people at work or retrain them for new jobs.

The oil price shocks of the 1970s, the recessions of 1974–75, 1979–80 and 1981–82 and our shift from a manufacturing to a service-and-information economy have had a devastating impact on the American work force. High unemployment rates are likely for the foreseeable future, despite recent declines in the rate. This means the nation can look ahead to an extremely expensive benefits program. During the 1975-75 recession alone, the unemployment-insurance system had to borrow $19 billion from the federal treasury to pay those eigible.

Nearly 2 million manufacturing jobs have been lost in the past decade. Most are permanent losses because automatic and foreign competition have eroded job opportunities in basic industries. The new unemployed deserved more than temporary relief provided by a government check during an often desperate effort to find jobs.

Unemployed insurance in America has gone largely unchanged since its enactment in 1935 at the depth of the Depression as a program to provide the unemployed with income during periods of temporary unemployment.

It is really 50 individual systems, not one. Firms channel a percentage of their payrolls into state trust funds. The states finance the basic 26 weeks of coverage and set their own rules for eligibility, duration and benefit levels. The federal government has helped pay for extended benefits up to 65 weeks.

Unemployment insurance has been a prompt and useful anti-recession weapon, and a model of Keynesian economics. As a recesssion begins, more unemployment insurance money flow into the economy. In better times, state trust funds are replenished. For many, this system works. Fully half of those on unemployment find another job within nine weeks and nearly 75 percent do in six months—within the basic 26-week program.

But for many of the rest, the cash benefits become and end in themselves—a source of income that ends abruptly when coverage finally ceases. This system does not prepare today's unemployed steel, auto, coal and rubber workers for the jobs of tomorrow.

From its creation until the mid-1970s, unemployment insurance's history under Democratic and Republican presidents, was one of steady expanding coverage. Benefits were extended to additional workers, for longer periods of time—although even today only about half the unemployed are eligible because a history of steady work is a precondition to receiving benefits.

Congressional support for unemployment insurance waivered under the financial stresses imposted by back-to-back recessions in 1980 and 1981-82. Critics said the system discouraged low-income workers from seeking a new job because it gave them as much as three-quarters of the amount they would have earned, after taxes, from a job.

The system was also faulted for providing tax-free benefits for second workers in high-income families—benefits that were almost as much as their after-tax earnings from regular employment. Critics noted that unemployment insurance could encourage layoffs, rather than shorter work weeks, during a recession, because employers felt it was more humane to make their workers eligible for full unemployment benefits rather than reduce their wages.

Under both Presidents Carter and Reagan, restrictions were imposed, cutting many people off the roles and making benefits for some taxable. Congress refused to pass a proposed expansion of unemployment insurance while unemployment was rising during the summer of 1980. President Reagan's 1981 cuts left hundreds of thousands ill-protected against the worst recession of the post-war era. There is not longer a strong bipartisan coalition supporting our existing benefits system. All the more reason to introduce reforms.

The key is to connect unemployment benefits to an expanded employment and training effort.

In West Germany, the Federal Employment Institute coordinates unemployment insurance with vocational education, training and job placement. Out-of-work West Germans can take advantage of a national data network run by the institute that collects information on all jobs available. West German law requires that job vacancies be listed with the service, which is a national monopoly. Unemployed Americans rely primarily on the weak and ineffectual placement system of the U.S. Employment Service. This prolongs the period that they depend on unemployment benefits.

In Sweden, only a fraction of total expenditures go to pay unemployment insurance; the bulk is channeled to vocational training and payments to industry for hiring and training workers.

In both countries, labor, management and government together direct the employment and training systems to assure their relevance to the actual needs of the workplace—and to sustain broad political support for the effort.

The Europeans provide job training and other employment benefits to all who need them, regardless of their income level, much like the original New Deal programs for the unemployed. But our experiments with employment and training programs such as the Comprehensive Employment and Training Act (CETA) and the Jobs Corps have been restricted to very low-income people.

Many nations, notably Sweden and Japan, rely heavily on incentives to private companies to keep workers employed, to train and retrain workers and, in Japan, to provide incentives to firms to hire workers from declining industries. As its shipbuilding industry declined during the last decade, Japan successfully retrained 50,000 workers. We can do no less for the hundreds of thousands of workers in our declining basic industries.

Many nations also use public employment, especially to ease the desperate situation of young workers. Despite its current unpopularity here, jobs provided by government as a last resort are still preferable to welfare or hunger.

We should discourage the out-of-work from spending long periods of non-productive time on unemployment compensation, and emphasize putting people back into the labor force as quickly as possible. As in Japan, cash benefits should be used initially to stabilize the lives of the suddenly unemployed. But the emphasis should

then shift to job retraining, not just to government checks. After a worker exhausts the basic 26-week benefit, further help should be conditional on participating in an organized search for a job or joining a job-training program.

The fact that each of the 50 states runs its own unemployment insurance program creates an opportunity to experiment with what works best in our country. Experiments such as these have promise:

States could permit workers to use their extended unemployment-insurance payments to help pay potential employers to train them on the job.

As the Congressional Budget Office recommended in 1981, unemployment insurance could be paid to those forced onto shorter work weeks, without requiring—as present rules do in many states—that any income earned at all must be deducted, dollar for dollar, from an individual's unemployment benefits.

California now has such a program. It saves businesses the cost of rehiring and gives workers greater job security and higher incomes than they would receive from straight unemployment insurance if they were unemployed.

States could make lump-sum payments, along the lines of the French and British systems, to help the unemployed start a business or seek work in more promising areas of the country.

States could copy California, which is using a small increase in its state payroll tax to finance training programs for those unemployed covered by unemployment insurance. Each program is approved by a panel that includes representatives of industry, labor and government.

States could create the type of employer-employe fund used in Japan to pay for workers to upgrade their skills while still on the job to lessen the likelihood of future layoffs.

The new "dislocated worker" provision of the 1982 Job Training Partnership Act provides a model—but a greatly underfunded one—on which to connect unemployment-insurance payments and the training of displaced workers. Local councils with representatives from business and labor provide training opportunities in the private sector. Training funds are available to anyone caught in plant closings or facing long periods of unemployment, regardless of their previous income. A continuation of benefits could be linked to an individual's receiving retraining.

Reforms in unemployment insurance and needed improvements in training programs are not a panacea for unemployment. Sound fiscal and monetary policy and a growing economy are central to curing the malady. But more is needed to help American workers adjust to the tremendous changes in our economy. That is why a reformed unemployment program should be a top priority for Congress and the next president, whoever he may be.

Chairman FORD. Thank you very much. I think it goes without saying that you have always offered some very fruitful information to the committee on this particular issue, and today your testimony has been splendid. As chairman of the committee I would like to personally thank you for your statement.

I would also like to say that not only have you been very helpful, but I think that when we talk about this comprehensive reform package, you know, dealing with the proposals to improve the Federal-State unemployment problem, it goes without saying that we are going to have to look at not only those provisions that you talked about but something that we can do to revamp the whole unemployment program itself.

And because we know that if things do not continue to improve the way the administration is talking about, we know that we will have another downturn in the economy, and we are going to be faced with similar problems that we were faced with last year and even faced with today, and I think that we have to address some of the critical needs of the long-term unemployed.

I think we have to address some of the needs of those who are not longer counted within that 8.5 million people who are unemployed that have now moved themselves on the public assistance rolls, and they still want jobs, but they have been able to or were

first forced to liquidate all of their assets and become qualified for any public assistance at all.

And so I will say as chairman of this committee we are looking for ways and means in order to draft legislation that will in fact address the real needs of the unemployed in this country, and hopefully it will have a permanent piece of legislation with a program intact in case there is another downturn of the economy, that everybody will be protected who has lost a job through no fault of their own.

Ms. KAPTUR. Mr. Chairman, you will have my full support and cooperation and all of the time I can give to help you get it passed, because I do not think there is any more important issue to my district.

When I first ran for office in 1982, there were 50,000 people out of work in the greater Toledo area. The present rates show we have put back to work about 12,000. But that means the rest of those people are still out there, and those figures, which are Department of Labor and Ohio Bureau of Employment Services figures, do not include the people on welfare I was talking about.

So, we still have a very serious situation out there that needs correction, and this program properly reformed could be of enormous benefit to so many of our people.

Chairman FORD. And there has been so much talk about the extended benefits under the IUR versus that of the total unemployment rate, and I was glad to see you bring that out, and hopefully when we look at this legislation we will take a very close look at those areas, because right today we mentioned earlier, when the Deputy Assistant Secretary of Labor was here, we talked about out of the 50 states we do not have a single state that has triggered on EB at the present time.

So, I do not think that you were in opposition to the EB program. I think what I heard you say to this committee is that we need a reform package, one permanent program, rather than having programs that we do not quite understand or might need a Ph.D. or whatever to figure out what those programs are.

So, we will take that into consideration.

Ms. KAPTUR. Maybe it is not possible to really reform the whole system at once, but if one could identify a concrete number of areas in the United States where long-term unemployment is high—where the steel mills have closed down, or auto plants, or whatever, and perhaps begin to take a look at what has really happened in those areas, how are these people making it. Many of them are still there. They have not moved to the Sun Belt. Some of them may wish to do that.

I remember Henry Reuss used to have a bill up here all the time with relocation assistance, but I think it is that kind of linkage that we need to be thinking about, and I know the State of Ohio—I will not speak for the Governor, would be very interested in helping to be one of those laboratories to figure out these new relationships and how we can make the system work better for the entire country.

Chairman FORD. I think the question is whether or not this committee ought to be looking at a permanent program that would respond when there is a downturn in the economy rather than tem-

porary extensions, whether it is EB or FSC or other provisions by the Government.

Ms. KAPTUR. It just does not seem like we look upon the unemployment system, the unemployment insurance system as an investment in the future, and I think that has got to be the perspective in any kind of comprehensive reform. Otherwise, we are just going to be bandaiding all over the place, and we are not really satisfying the unemployed, and we are certainly making the taxpayers angry, because they feel that we are wasting money with all of these different layers and administrators at all different levels. I do not think we are really serving either side, the taxpayer or the person who happens to be unemployed, in the best way that we can.

Chairman FORD. Thank you very much.

Mr. Campbell.

Chairman CAMPBELL. Thank you, Mr. Chairman, and thank you very much for your testimony.

You mentioned looking at some things through demonstration projects in certain hard-hit areas. Let me carry that one step further, and ask you what your feelings are about looking at the possibility of substate triggers, where in fact we were able to deal with areas of States that might be impacted, whereas they might not be eligible under the program if you count the whole State.

Have you given any thought to that?

Ms. KAPTUR. That is kind of an interesting idea. I really have not. If you look at the State of Ohio and each of the counties in Ohio, you will find different unemployment rates. If you look at our State, some of the areas in the southern part of the State that perhaps were not stricken as hard pulled down the existing formula rate which is not that terrific a rate in the first place, because it does not include a lot of people. There is a wide variance between the counties in Ohio, and ours is still about 9.5 percent of those who are being counted.

And the system just does not respond quickly enough to help people move off those rolls and into productive work.

Mr. CAMPBELL. My concern, and the reason for the question, is that we have heard testimony from time to time along those lines, that some counties were in good shape and others were devastated, and perhaps we should be looking at a system that would allow us to trigger on programs for certain areas and not the whole State, because obviously we have a cost consideration. I just wondered if you had given that any thought, and would you, I hope?

Ms. KAPTUR. I would certainly look at anything like that.

Mr. CAMPBELL. And the second thing, of course, I agree with the chairman that we are going to have to look at a comprehensive reform package. I am not sure what form it will take yet. Of course we are open to all of the testimony and ideas, and so we certainly appreciate your coming.

Ms. KAPTUR. Thank you, Mr. Campbell. I appreciate being here.

Chairman FORD. Again, thank you very much for your appearance.

Ms. KAPTUR. Thank you, Mr. Chairman.

Chairman FORD. The subcommittee would like to call the minority leader of the House, Mr. Robert H. Michel, as the next witness

before the subcommittee. Mr. Michel, we are happy to have you with us today, and have the distinguished minority leader of the House come to testify before the subcommittee. We are very honored to have your presence.

STATEMENT OF HON. ROBERT H. MICHEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. MICHEL. Thank you, Mr. Chairman. I appreciate having the opportunity to appear before your subcommittee on the issue of revising our unemployment compensation system.

I think this hearing is most appropriate because the best time to consider structural changes in a dispassionate manner is when we are not facing an urgent problem requiring immediate action.

I think we ought to be encouraged by the fact that the unemployment rate has dropped significantly during the past 2 years, to the current level of 7.5 percent. I think the performance of our economy has been rather remarkable, and this has resulted in employment gains all across the country. Even in my own area of Illinois, where unemployment at one time reached as high as 19 percent, now it is down to 10 percent—certainly not an acceptable level, but significant improvement.

So whereas last year and the year before we were legislating under the gun with respect to unemployment compensation, I think today we can afford a more dispassionate look at the system and possible changes therein.

It is my intention in coming before you to address the subject matter of legislation that I introduced last year, namely the targeting of benefits on high unemployment areas within a State. Overall, I think our unemployment compensation system has done a reasonably good job in providing an income base for those who become unemployed. However, we still face serious problems in dealing with the long-term unemployed, those who continue to be unemployed after their initial 26 weeks of benefits are exhausted.

Now, we have dealt with the long-term unemployed in a manner that I can only term as haphazard. We have had two different programs, as you all well know: the extended benefit program providing 13 weeks of additional benefits and financed half by the States and half by the Federal Government; the second is the Federal Supplemental Compensation Program, which currently provides between 8 and 14 weeks of benefits fully funded by the Federal Government.

At present, none of the States are eligible for extended benefits, but all of them are paying supplemental benefits. The extended benefit program is operated under a trigger that nobody seems to understand, while the supplemental benefit program has undergone constantly changing criteria that leaves everyone confused.

I would urge initially, then, that the committee develop a permanent, consistent program that is not subject to yearly change, but simply triggers on or off depending on the rate of unemployment. And in establishing such a program, I would urge that it be based on a targeting concept whereby benefits are rifle-shotted to areas of high unemployment, and I recommend this concept for two reasons.

The first is to better assist those people out of work in high unemployment areas who have had trouble finding jobs because of the high unemployment level in that area; and the second is to limit the cost of providing additional benefits, thus recognizing the budgetary problems we are facing and will continue to face in coming years.

I think we all recognize the problems faced by the unemployed, particularly in high unemployment areas. I can recount numerous cases in my own district, particularly last year, when the unemployment rate was well up in the double digit range, where people had exhausted their unemployment benefits and did not know where else to turn, and they had been searching day and night for work without being able to find any jobs available.

I recall having to try to explain the patchwork quilt of Federal unemployment benefit programs and how some of them might be eligible for additional benefits and others would not be eligible, and I do not have to tell you that it was not easy.

The targeted approach was designed as a means of providing such individuals with additional benefits without raising overall costs. So it contrasts with the broad-brush approach of the current program, which provides a certain limited range of supplemental benefits across the board to all areas of the country, almost irrespective of the rate of unemployment.

I would ask why, for instance, should the same level of benefits be provided in Dallas, TX, with an unemployment rate of 3.5 percent, as in Laredo, TX, with a rate nearly five times as high, 16.4 percent? Or why should people in Lincoln, NE, be entitled to 8 weeks of extra benefits when the unemployment rate there is only 2.7 percent, while people in Peoria, IL, my home town, where the rate is 10 percent now after having declined, receive only 12 additional weeks of benefits?

I think there is a major difference in the ability of people to find jobs in those respective areas, and yet the current program does very little to take that into account. The targeted approach that I have proposed in the bill H.R. 3915 would, on the other hand, provide a greater range in benefit levels to better reflect the levels of unemployment in local areas.

Under the bill, a total of 26 weeks of Federal Supplemental Compensation Program benefits would be available for the unemployed residing in metropolitan statistical areas or counties with unemployment rates of 15 percent or greater. Such individuals would thus be eligible for 52 weeks of unemployment benefits, compared to the current level of between 34 and 40 weeks. In areas with unemployment rates of between 13 and 15 percent, 16 to 21 weeks of additional benefits would be provided.

Now, I should say here and now that, while we developed those percentages last year, when all our figures were considerably higher than they are today, that I am not hung up with those or wedded to those numbers. The bill was developed, as I said, last year during the period when we were acting on Federal supplemental compensation reauthorizing legislation, and was more or less developed in connection with the existing program at that time.

And I suppose rather than currently focusing on the specific numbers, I think it is the concept that I want to get across today,

the idea of switching from focusing on States as a whole to areas within States. I think that even as the economy as a whole improves, we are still going to be left with pockets of chronic unemployment, which is all the more reason for our focusing on the concept, rather than on the numbers.

Now, the Labor Department advised us last year that this targeting approach would cost less than the broad-brush approach. Under the current Federal supplemental compensation program, we are spending $3 billion this year and a billion next year. Last year I think we spent $6 billion all-told.

Last year's legislation called on the Labor Department to study the targeting concept. The Department has come out with what I would characterize as a basically negative report which dwells on the problems rather than on the advantages to be gained. I would categorize that as basically a bureaucratic negative response.

Let me address several of their areas of concern. Under my proposal, targeted areas are defined as metropolitan statistical areas when comprised solely of complete counties or as counties when counties do not fall within such metropolitan statistical areas. We proposed this criteria for several reasons:

First, the Bureau of Labor Statistics currently collects county and metropolitan statistical area unemployment stats every month. So they are already available, the necessary statistical data for determining an area's eligibility without having to set up a new system for data collection. And when I served on the Appropriations Committee, having the Labor Department under our jurisdiction, this was one of those babies we were concerned about at that time, pushing the Department to break down the statistics so that they would be available.

Now, the Department apparently feels that the local data presently being collected is not as reliable as it should be. If that is the case then perhaps some improvements in this regard would be in order. Clearly, we ought to be as accurate as possible. But if data is currently being published in official form by the Bureau of Labor Statistics, I cannot imagine that it is all that far off base.

And using that metropolitan statistical area as the targeting area also allows us to overcome for the most part the problem of where a person works versus where he lives. Most people residing in a metropolitan statistical area also work there. Thus we in essence treat the place of employment and the place of residence the same as far as the determinant of eligibility is concerned, even though we do utilize place of residence as the basic eligibility criteria.

Place of residence is used primarily because it is the basis for the collection of the sub-state unemployment data, and thus would enable us to adopt the targeting approach more readily.

My proposal envisions using the total unemployment rate, rather than the insured unemployment rate as the basis for determining an area's eligibility for benefits, basically because, again, the total rate is the rate used currently in determining local unemployment data. I have no great preference between the total unemployment or the insured unemployment rate, except that I think we ought to use whatever best enables us to move expeditiously with the implementation of the targeted approach.

Let me conclude very briefly by observing that I believe the Labor Department overstates the obstacles involved in targeting benefits. I know there are problems and I hope they will be carefully considered, but I do hope you will see fit to move legislatively next year to implement a targeting approach. I believe this will enable us to better assist the long-term unemployed in high unemployment areas, while at the same time limiting costs to the greatest possible degree.

And I certainly appreciate the indulgence of the committee.

[The prepared statement follows:]

STATEMENT OF HON. ROBERT H. MICHEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. Chairman, I appreciate having this opportunity to appear before your subcommittee on the issue of revising our unemployment compensation system.

I think this hearing is most appropriate, because the best time to consider structural changes in a dispassionate manner is when we are not facing an urgent problem requiring immediate action.

I'm sure we all take pleasure in the fact that the employment rate has dropped significantly during the past 2 years, to the current 7.5 percent.

The performance of our economy has been remarkable, and this has resulted in employment gains all across the country. Even in my own area of Illinois, where unemployment at one point reached as high as 19 percent, it has now dropped to 10 percent.

So, whereas last year and the year before we were legislating under the gun with respect to unemployment compensation, today we can afford a more dispassionate look at the system and possible changes therein.

It is my intention, in coming before you, to address the subject matter of legislation I introduced last year—namely the targeting of benefits on high unemployment areas within states.

Overall, I think our unemployment compensation system has done a reasonably good job in providing an income base for those who become unemployed.

However, we tend to face problems in dealing with the long-term unemployed—those who continue to be unemployed after their initial 26 weeks of benefits are exhausted.

We have dealt with the long-term unemployed in a manner that I can only term as haphazard. We have had 2 different programs:

The Extended Benefit Program, providing 13 weeks of additional benefits, and financed half by the states and half by the federal government.

The second is the Federal Supplemental Compensation Program, which currently provides between 8 and 14 weeks of benefits, fully funded by the federal government.

At present, none of the states is eligible for extended benefits, but all of them are paying supplemental benefits.

The Extended Benefit Program has operated under a trigger that nobody seems to understand, while the Supplemental Benefit Program has undergone constantly changing criteria that leaves everybody confused.

I would urge initially, then, that the Committee develop a permanent, consistent program that is not subject to yearly change, but simply triggers on or off depending on the rate of unemployment.

In establishing such a program, I would urge that it be based on a targeting concept whereby benefits are rifle-shotted to areas of high unemployment.

I recommended this concept for two reasons.

The first is to better assist those people out of work in high unemployment areas who have trouble finding jobs because of the high unemployment level in their area.

The second is to limit the cost of providing additional benefits, thus recognizing the budgetary problems we are facing and will continue to face.

I think we all recognize the problems faced by the unemployed, particularly in high unemployment areas.

I can recount numerous cases in my own district, particularly last year when the unemployment rate was well up in the double-digit range, where people had exhausted their unemployment benefits and did not know where else to turn.

They had been searching day and night for work without being able to find any jobs available.

I recall having to try and explain the patchwork quilt of federal unemployment benefit programs and how some of them might be eligible for additional benefits and others would not.

I don't have to tell you that it wasn't easy.

The targeted approach was designed as a means of providing such individuals with additional benefits without raising overall costs.

It thus contrasts with the broad-brush approach of the current program, which provides a certain limited range of supplemental benefits across-the-board to all areas of the country, almost irrespective of the rate of unemployment.

Why, for instance, should the same level of benefits be provided in Dallas, Texas, with an unemployment rate of 3.5 percent, as in Laredo, Texas, with a rate nearly 5 times higher (16.4%)?

Or why people in Lincoln, Nebraska, be entitled to 8 weeks of extra benefits when the unemployment rate there is only 2.7 percent, while people in Peoria, Illinois, where the rate is 10 percent, receive only 12 additional weeks?

There is a major difference in the ability of people to find jobs in these respective areas, yet the current program does very little to take that into account.

The targeted approach I have proposed as embodied in H.R. 3915, would on the other hand, provide a greater range in benefit levels to better reflect the levels of unemployment in local areas.

Under the bill, a total of 26 weeks of Federal Supplemental Compensation Program benefits would be available for the unemployed residing in Metropolitan Statistical Areas or counties with unemployment rates of 15 percent or greater.

Such individuals would thus be eligible for 52 weeks of unemployment benefits, compared to the current level of between 34 and 40 weeks.

In areas with unemployment rates of between 13 and 15 percent, 16 to 21 weeks of additional benefits would be provided.

I should mention that I am not wedded to these numbers. The bill was developed last year during the period when we were acting on Federal Supplemental Compensation reauthorizing legislation, and was more or less developed in connection with the existing program at that time.

Rather than focusing on the specific numbers, I think it is the concept that is important.

The Labor Department advised us last year that this targeted approach would cost less than the broad-brush approach.

Under the current Federal Supplemental Compensation program, we are spending 3 billion dollars this year, and 1 billion dollars next year. We spent nearly 6 billion dollars last year.

Under a properly drafted targeting of benefits, we can reduce this cost and at the same time provide a greater level of benefits to the most needy areas.

Last year's legislation called on the Labor Department to study the targeting concept. The Department has come out with what I guess is a basically negative report, which dwells on the problems of moving in this direction, rather than the advantages.

I would categorize this as basically a bureaucratic negative response.

Let me address several of their areas of concern.

Under my proposal, targeted areas are defined as Metropolitan Statistical Areas, when comprised solely of complete counties, or as counties when counties do not fall within such Metropolitan Statistical Areas.

We propose this criteria for several reasons.

First, the Bureau of Labor Statistics currently collects county and Metropolitan Statistical Area unemployment statistics every month. We thus already have available the necessary statistical data for determining an area's eligibility without having to set up a new system for data collection.

The Department apparently feels that the local data presently being collected is not as reliable as it should be. If that is the case, then perhaps some improvements in this regard would be in order.

Clearly, we ought to be as accurate as possible. But if data is currently being published in official form by the Bureau of Labor Statistics, I can't imagine it is that far off base.

Using Metropolitan Statistical Areas as the targeted area also allows us to overcome for the most part the problem of where a person works versus where he lives.

Most people residing in a Metropolitan Statistical Area also work there. Thus, we in essence treat the place of employment and the place of residence the same as far as a determinant of eligibility is concerned, even though we do utilize place of residence as the basic eligibility criteria.

Place of residence is used primarily because it is the basis for the collection of the substate unemployment data, and thus would enable us to adopt the targeted approach more readily.

My proposal envisions using the total unemployment rate, rather than the insured unemployment rate, as the basis for determining an area's eligibility for benefits, basically because, again, the total rate is the rate used currently in determining local unemployment data.

I have no great preference between the Total Unemployment Rate or Insured Unemployment Rate, except that I think we ought to use whatever best enables us to move expeditiously with the implementation of the targeted approach.

Let me conclude by observing that I believe the Labor Department overstates the obstacles involved in targeting benefits. I know there are problems, and I hope they will be carefully considered.

But I do hope you will see fit to move legislatively next year to implement a targeting approach.

I believe this will enable us to better assist the long-term unemployed in high unemployment areas while at the same time limiting costs to the greatest degree possible.

I thank you for your indulgence.

Chairman FORD. Mr. Michel, we would like to thank you. There are 4 minutes left on the House floor for a vote. We would like to thank you and I would like to make one comment, and that is that the Chair will concur with, I would say, all of the things that you have talked about in your testimony before the committee and even your bill.

We are going to seek your help, though, in helping us convince the administration that we must move forward in a comprehensive package and have it ready by March 1985 so we can implement new legislation.

Mr. MICHEL. Well, I thank the chairman for those encouraging remarks. And as I said, we are willing to put all of our full weight behind what we talked about here today.

Chairman FORD. Well, they testified earlier today and they were talking about the targeting concept and the administration is opposed and they stated reasons why. So I think we are going to need the leadership of the minority leader in this House to move the administration from their position.

Mr. MICHEL. Thank you.

Chairman FORD. Mr. Campbell.

Mr. CAMPBELL. I thank the gentleman for his testimony. I want him to know that the minority side of this subcommittee is very much in sympathy with him and has been asking a series of questions of witnesses that came before us today as to their opinion of sub-State triggers. And outside of the Labor Department, we seem to have had a very positive response, and so we look forward to working with you.

Mr. MICHEL. Thank you.

Chairman FORD. The committee will recess for 10 minutes.

[Recess.]

Chairman FORD. The subcommittee will come to order.

The Chair would like to say to the witnesses that we are awfully sorry we have delayed you, but we have to go by the lights that keep coming on on the clock, and some of the other members have had to get back to other committee work. But we want to thank you for waiting patiently for the committee to call you up.

And at this time the committee will recognize you, Mr. Burtless, senior fellow at the Brookings Institution.

STATEMENT OF GARY BURTLESS, SENIOR FELLOW, THE BROOKINGS INSTITUTION

Mr. BURTLESS. I am honored by the invitation to testify before the committee.

Chairman FORD. If we could get you to pull that mike a little bit closer, I would appreciate it.

Mr. BURTLESS. I prepared a formal statement giving my views on the questions that the committee raised in its letter of invitation.

Chairman FORD. Your written statement will be made a part of the record and you may summarize it or whatever. I would like you to know that I had an opportunity to read your statement last night and I guess you have heard from all of the witnesses here today.

There has been a lot of talk about the IUR and there has been a lot of talk about the total unemployment rate, and in reading your testimony last night I noticed that you really got into those issues and tried to point out and give us some clear direction as to which way to go.

Mr. BURTLESS. I unfortunately did not hear the testimony this morning of the Labor Department witnesses. I have only heard by hearsay what they said.

Chairman FORD. Well, you have heard some of the other witnesses who have been here later in the later hours also address some of those issues.

Mr. BURTLESS. It seems to me that in the past recession the Nation's unemployment rose to exceptional highs, but the number of people receiving benefits was extremely low, which seems to me an indictment of the unemployment insurance system as a method both of providing countercyclical stimulus for the economy and also needed income protection for those who become unemployed.

In the formal statement I provide a table showing the Nation's unemployment rate, its insured unemployment rate, and the unemployment insurance spending for selected fiscal years in the mid-1970's and early 1980's. Those figures provide a disturbing picture of our Nation's unemployment insurance programs.

I will skip over most of the actual statistics, but the number of people and total amount of unemployment insurance paid was extremely low in comparison to the number of people who lost their jobs.

Each month the Census Bureau asks unemployed workers how they became unemployed. Workers who are temporarily or permanently laid off from their last job are defined as job losers. The unemployment insurance system is supposed to temporarily protect the incomes of these job losers. In a graph presented in my formal statement, I show how much UI income protection has been provided to an average job loser in each fiscal year from 1972 to 1983.

As you can see in the graph, the amount of real unemployment compensation per job loser has been lower in the past 3 years than in any other fiscal year after 1971. In the most recent 2 years for which I have complete data, 1982 and 1983, the real compensation per job loser was about 40 percent below the level paid in the last serious recession, 1975 to 1977.

The statistics show that our unemployment insurance programs require careful scrutiny, if not serious reform. The relative decline in unemployment insurance in recent years has taken place because of a contraction of three programs, not just in the two that most of the witnesses have been speaking about: Because of declines in the regular State-Federal programs which offer benefits up to 26 weeks, because of declines in the extended Federal-State Program or EB, and because of relative declines in the Federal Supplemental Compensation Program compared to the equivalent program that was available in 1975 to 1977.

Now, in part the EB and FSC programs are smaller because the administration and Congress have made them smaller purposefully. The EB Program was reformed in 1981 so that States would be less likely to offer EB benefits at relatively high unemployment levels.

The FSC Program was enacted relatively late in the 1981–83 recession, as some of the other witnesses mentioned, and it was less generous than the equivalent supplemental program, FSB, enacted in the earlier recession.

But the most important source of decline in the unemployment insurance programs in general has been the unexpected contraction in the regular 26-week program. By my estimate, about 25 percent fewer jobless workers have been collecting regular UI benefits than we would expect, given the historical relationship between unemployment and unemployment insurance. Over the past 2½ years, that amounts to about 1.1 million fewer workers in a typical week who are receiving regular jobless benefits, or roughly 10 percent of all unemployed workers.

The decline in the number of regular UI recipients has had both direct and indirect consequences for the EB and the FSC Programs. First of all, the number of regular UI claimants is that number which is used to determine the insured unemployment rate, or IUR. The IUR in turn is the rate used to trigger EB payments and to determine the benefit duration of FSC payments in each State.

Since the IUR is lower than expected given the level of civilian unemployment, the EB Program has been less likely to trigger on, and when it does trigger on it tends to trigger off quite early.

A second consequence of the decline in the Regular Insured Unemployment Program has been that, since there are fewer people collecting regular benefits, there are fewer people to exhaust those benefits and then begin receiving either EB or FSC benefits upon exhaustion.

Now, when I say that a program has declined in recent years, what I mean is that it has declined in size relative to the total number of unemployed workers, not that it has declined absolutely in size. Obviously, there were more people collecting unemployment insurance benefits in 1982 or 1983 than there were in 1979. But the state of the economy was much worse in 1982 or 1983 than it was in 1979.

The most important single cause for the drop in overall insured unemployment, as I said before, has been the unexpected contraction in the Regular UI Program. In my detailed statement, I provide some further details about the main causes for this decline, but one implication of the decline in regular UI beneficiaries is

that the IUR no longer provides a reliable guide to the level of labor market distress.

Therefore, the IUR should be replaced or supplemented, in my opinion, as a trigger for extended and supplemental UI benefits. The bill, H.R. 3863, which was introduced in the Senate by Senators Byrd and Heinz, proposes a sensible and practical alternative in my opinion to the IUR.

That bill would continue to rely on the IUR as a trigger for State EB benefits, but it would supplement the IUR trigger with an alternative measure of unemployment in cases where the IUR remains unusually low. For large States, the bill proposes using the seasonally adjusted total unemployment rate or TUR for the State, and this is possible in about a dozen States where the sample in the Current Population Survey is large enough to accurately estimate the unemployment rate.

For smaller States, the bill proposes using a 12-month moving average of the TUR. Over a 12-month period, the State samples in the CPS are generally large enough, I think, to yield an accurate estimate of the TUR for such a long period.

In my view, Senators Byrd and Heinz have suggested a method of triggering extended benefits that is superior to the method in current use. The TUR is just a better measure of labor market distress than is the IUR. However, the TUR also has some problems, which Congress should be aware of before deciding that the TUR recommended in the bill is the preferred measure.

First of all, the use of a 12-month average TUR as a trigger rate may mean that the EB system responds rather sluggishly to a rise or decline in unemployment. In a recession the moving average TUR will rise above the trigger threshold several months after the monthly TUR has already been above that threshold. Similarly, during an economic recovery the moving average will fall below the threshold several months after the monthly TUR has fallen below. So there is a problem with the moving average.

Also, the moving average rate will never reach the same peak of measured unemployment as the monthly TUR, because of course it averages in past, relatively low unemployment months with the rate in the peak month. In Senators Byrd and Heinz's proposal, this may mean that the smaller States seldom qualify for longer benefit durations because those longer benefit durations are only given to States with exceptionally high measured unemployment rates.

In order to treat the larger and the smaller States on a more equal footing, Congress may wish to consider using a 6-month or even a 3-month moving average of the seasonally adjusted TUR in each State, regardless of the relative size of the CPS sample in the State. For larger States, the monthly TUR could be measured as it presently is, with the direct use of CPS data, because those States have enough people in the sample in the State to accurately measure the TUR. But in the smaller States, 6 or even 3 months of CPS data could be suitably supplemented with data from the unemployment insurance system to come up with an estimate of the State's TUR.

Now, the Labor Department already provides State-by-State estimates of the TUR using a combination of the CPS data and the un-

employment insurance system data. Those estimates would be improved if the Department used a longer time period than 1 month in making its estimates, and that is why I call for using a 3-month or a 6-month moving average.

For one thing, the CPS sample in each State, even a small one, is substantially larger over the 6-month or 3-month period than it is in a single month. The estimates would be further improved if the Census Bureau increased the CPS sample sizes interviewed in the smallest States. That is, after all, the limiting factor. It is the small sample size that limits the accuracy of the estimate of the TUR. So larger sample sizes should improve it.

A second, though less important, problem with the TUR is its failure to measure the labor market situation of those people who are insured by unemployment insurance. The civilian unemployment rate counts four groups of people as unemployed: people on temporary or permanent layoff, people who quit their last jobs, new entrants to the labor market, and reentrants to the labor market.

Now, the last two groups of unemployed are generally not covered by unemployment insurance. They have not worked in a job that is covered by the system. And voluntary job leavers are also uninsured by the system in many States. Only job losers, those who are on temporary or permanent layoff, can ordinarily expect to receive UI when they lose their jobs, when they become unemployed.

One problem with the TUR is that it rises or falls in response to growth or decline in the number of new entrants and reentrants, but there is no reason to increase the duration of UI benefits simply because there is a greater number of new entrants or reentrants in a given month. For example, if the labor market is growing very quickly because young men and young women are entering the labor force or married women are reentering the labor force at a high rate, there would be no reason necessarily to extend the period of unemployment insurance.

For that reason, it is somewhat preferable to use the job loser rate rather than the TUR to trigger extended benefits. Now, the job loser rate is defined as the number of unemployed job losers reported on the CPS divided by the number of civilian employed persons reported on the CPS. Notice that the job loser concept is directly comparable to the definition of the IUR.

The IUR is the number of regular unemployment insurance claimants divided by the number of jobs which are covered by the UI system. But the job loser rate has the advantage of being a much closer reflection of the current state of the economy than is the IUR.

In whatever way Congress reforms the EB and FSC programs, it should be aware that the overall UI system will remain smaller than it once was for the foreseeable future. The main cause for the contraction in UI has been the decline in the regular program, not in the extended or supplemental programs.

A vital task for policymaking in the next couple of years is to restore the ability of the Nation's unemployment insurance programs to deal with severe recessions. The enactment of reforms in the triggering mechanism for extended and supplemental benefits would represent a good start to that reform process.

Thank you.
[The prepared statement follows:]

STATEMENT OF GARY BURTLESS,* SENIOR FELLOW, THE BROOKINGS INSTITUTION

THE PROGRAM EFFECTIVENESS OF UNEMPLOYMENT INSURANCE DURING THE RECENT RECESSION

Over the past three and a half years unemployment benefits have been paid to an unusually small fraction of jobless workers. The reasons behind this development are not entirely understood, though they are clear in general outline. In this testimony I will briefly discuss three aspects of this problem. First I will describe the nature of the unemployment insurance mystery. How did our experience in the recent recession differ from that in previous recessions? I will then outline some of the main reasons that our recent experience has differed so markedly from that in past recessions. And last, I want to discuss some proposals to improve the cyclical performance of the unemployment insurance system.

The drop in insured unemployment

In essence the unemployment insurance puzzle is quite simple. Unemployment rose to new post-war highs in the early 1980s, but the number of workers collecting jobless benefits remained unexpectedly low. This development was reflected in a number of striking trends. The total unemployment rate—or TUR—rose significantly from 1980 to 1982, but the insured unemployment rate—or IUR—failed to rise as fast or as much. From the first quarter of 1980 to the last quarter of 1982 the civilian unemployment rate rose from 6.3 percent to 10.6 percent for a rise of 4.3 percentage points. By contrast, the insured rate rose only from 3.3 percent to 5.1 percent, for a rise of just 1.8 percentage points. The relatively low level of the insured unemployment rate was a reflection of the small number of workers collecting jobless benefits. In fiscal year 1982 only about 42 percent of unemployed workers were collecting benefits under regular, extended, and supplemental unemployment programs, while in fiscal 1976, during the most recent severe recession, nearly three-quarters of the unemployed were covered by these types of jobless benefits.

As a consequence of the trends just mentioned, the amount of countercyclical stimulus provided by unemployment insurance was smaller in the recent recession than it had been in previous recessions. In fiscal year 1976, when only 7.6 million workers were unemployed, the nation spent almost $31 billion (1982 dollars) on all UI programs. (See Table 1.) In fiscal 1982, when unemployment averaged 10 million workers, less than $24 billion was spent on jobless benefits. Last fiscal year (1983), spending on all unemployment insurance programs rose to $30 billion, but the number of unemployed was over 11 million, or almost 50 percent above the figure for 1976. Thus, relative to 1976 the total amount of benefit outlays dropped by nearly one-fourth in 1982 and by a slight amount in 1983, though the number of unemployed was one-third to one-half higher in those years. Stated another way, the real level of UI compensation per unemployed worker fell by over 40 percent in 1982 and by over one-third in 1983.

TABLE 1.—UNEMPLOYMENT INSURANCE OUTLAYS, SELECTED FISCAL YEARS, 1975–83

	1975	1976	1980	1981	1982	1983
Outlays on all unemployment insurance programs (billions of 1982 dollars) [1]	22.57	30.78	20.98	20.95	23.76	30.10
Benefits paid under regular State programs (billions of 1982 dollars) [1]	NA	16.14	15.05	14.32	19.34	19.97
Benefits paid under extended and Federal supplemental programs (billions of 1982 dollars) [1]	NA	10.07	1.30	2.25	1.90	7.68
Total unemployment rate (percent)	7.3	8.0	6.8	7.3	9.1	10.1
Insured unemployment rate (percent)	5.0	5.0	3.8	3.5	4.4	4.3
Average number of unemployment (millions)	6.81	7.60	7.25	8.02	10.02	11.27

[1] Figures derived using the Payments for Individual deflator as published in the 1985 budget, p.9–61. N.A. Not available in "Background Material and Data."

Source: "Budget of the United States Government," for fiscal years 1977, 1978, 1982, 1983, 1984, and 1985; U.S. Department of Labor, "Employment and Earnings" (various issues); and U.S. House of Representatives, "Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means," U.S. G.P.O., 1984, pp. 228–229.

* The views expressed here are solely those of the author and do not necessarily represent those of The Brookings Institution, its Trustees, or any other Brookings staff members.

The drop in unemployment insurance coverage was caused by relative declines in three different programs—the basic federal-state program (regular UI), the federal-state extended benefit program (EB), and the federal supplemental compensation program (FSC). The regular UI program pays benefits to eligible unemployed and underemployed workers for up to 26 weeks. The EB program pays benefits for an additional 13 weeks to workers who exhaust their regular benefits and who reside in states where the insured unemployment rate is above the required trigger level. The FSC program pays benefits for an additional 8 to 14 weeks to workers who exhaust both regular and extended benefits, with the duration of FSC benefits depending on the level of states "long term IUR," that is the average IUR for weeks between January 1982 and April 1984.

The most important (and unexpected) source of decline in insured unemployment has been the comparative drop in the number of covered unemployed workers under the regular UI program. If past historical patterns had continued, there would have been about one-third more unemployed workers receiving regular UI over the period 1982–1984.[1]

This implies that over one million fewer workers have received benefits in a typical week than we could expect on the basis of the nation's prior experience with the unemployment compensation program. Because the IUR is the fraction of workers covered by the UI program who are currently collecting regular jobless benefits, it follows that the decline in the number of recipients of regular UI has had a direct impact on the IUR. The relative decline in the number of workers collecting regular UI has caused the IUR to fall about 1.4 percentage points below the level it would otherwise have been.

The decline in the IUR has affected the performance of the extended benefit program, which is triggered by state IUR levels. Because the IUR has been unexpectedly low in comparison to the TUR, states have been less likely to make EB payments at a given level of the TUR. Even for states where the EB program is triggered on, the IUR is likely to fall below the threshold trigger level at an earlier point in the recession. Consequently, state EB programs are less likely to be triggered, and when they are triggered they will provide benefits for a shorter period. In addition, because the number of regular UI claimants is low relative to historical experience, the number of exhaustees of regular benefits will be comparatively low at high levels of the TUR. If the number of exhaustees is small, the number of EB claimants will of course also be low.

The EB program has also been affected by various EB reforms enacted in 1981. Technical changes in determining the trigger threshold have raised the level of insured unemployment required before the EB program is triggered. As a result of these reforms, a smaller number of States offered extended benefits in the 1981–84 period than would have been the case in previous recessions. At the end of 1982, when the TUR was 10.8 percent, only fourteen States with particularly high insured rates were offering extended benefits. If the pre-1981 law had been in effect, all fifty States would have been participating, as they were during the 1975–76 recession. By September 1983, when the civilian TUR remained at 9.3 percent, only two States and Puerto Rico were offering extended benefits. A somewhat higher number of States would have offered benefits under previous law. However, in a careful study of the EB program reforms, Walter Corson and Walter Nicholson of Mathematica have concluded that less than half the relative decline in EB benefits has been due to the legal reforms passed in the early 1980s. They found that when the reforms were fully implemented after September 1982 the number of EB first payments should have declined by about 25 percent from their expected pre-reform levels as a result of the reforms. But in the year after September 1982 EB first payments were a full 55 percent below their expected levels, so most of the decline was due to the relative drop in *regular* UI claims rather than to the various reforms that have been made in the EB program.[2]

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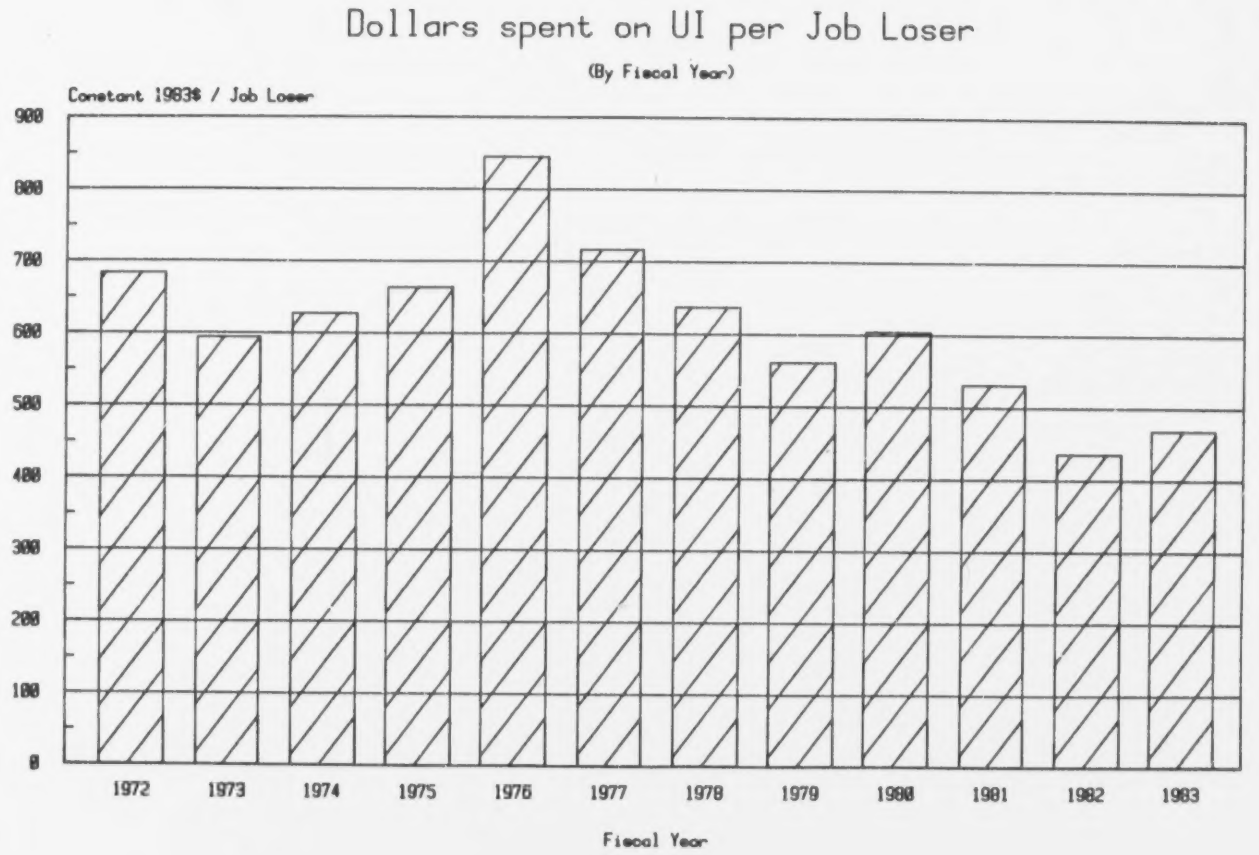
[1] Gary Burtless, "Why Is Insured Unemployment So Low?" Brookings Papers on Economic Activity, 1983:1, pp. 225–253; and Gary Burtless, with Daniel H. Saks, "The Decline in Insured Unemployment During the 1980s," Brookings Economic Discussion Paper, The Brookings Institution, Washington, D.C., April 1984, pp. 22–41.

[2] Walter Corson and Walter Nicholson, "An Analysis of the 1981–82 Changes in the Extended Benefit Program," Mathematica Policy Research, Princeton, N.J., February 1984.

In addition to reforming the EB program, the nation has also been less generous in providing unemployment insurance to workers who exhaust EB benefits. Until October 1982 the nation's unemployment insurance system offered no income protection beyond 39 weeks in those States qualifying for extended benefits and beyond 26 weeks in States not eligible for EB. This was in marked contrast to experience in 1975–76 when federal supplemental benefits (FSB) were available to exhaustees of regular and extended benefits. The FSB program began in January 1975, only six months after unemployment began its rapid rise in 1974. The program offered 26 additional weeks of benefits, a greater number than has been offered under the comparable FSC program in 1982–84.

The combined effect of the relative cutbacks in the regular, EB, and FSC programs is represented in Figure 1, which shows the amount of real UI spending per job loser in fiscal years 1972 through 1983. (The complete data for 1984 are not yet available.) A job loser is an unemployed person who reports being without work either because of a temporary or permanent layoff from last job. The count of job losers excludes those unemployed workers who are new entrants or reentrants to the labor market as well as those who quit their most recent job. Therefore, it represents a reasonable count of those unemployed who ought to be insured by jobless benefits. As can be seen in Figure 1, the amount of compensation per job loser has been lower in the past three years than in any other fiscal year after 1971. In the two years 1982–83, real compensation was about 40 percent below the level paid in the previous severe recession, 1975–77. Thus, the nation significantly reduced the amount of income protection and countercyclical stimulus in the midst of the worst economic downturn since the Great Depression.

Figure 1


Dollars spent on UI per Job Loser
(By Fiscal Year)
Constant 1983$ / Job Loser
900
800
700
600
500
400
300
200
100
0
1972
1973
1974
1975
1976
1977
1978
1979
1980
1981
1982
1983
Fiscal Year

Causes for the decline in jobless relief

The main "mystery" in the recent recession was in the regular unemployment insurance program. It is true that there have been cuts in both the EB and FSB programs compared to previous recessions. But most of the decline in EB is due to the fact that the IUR is much lower than expected. The remainder of the decline in EB, as well as the relative decline in FSC, is attributable to political action (or inaction) by the Administration and Congress. The mysterious decline in regular jobless benefits in recent years is primarily attributable to administrative and legal changes in unemployment insurance that were implemented or enacted in the late 1970s. Before discussing that point any further, I will comment on some alternative explanations for the decline.

There is no evidence that the composition of the unemployed is significantly different than it was in previous recessions. According to the Current Population Survey, the fraction of women and teenagers among the unemployed was actually a little lower than in the previous severe recession. (Those two groups are typically less likely to receive jobless benefits than prime age unemployed men.) The distribution of unemployment by industry and occupation has not shifted in any way that would explain the drop in regular UI. The geographic concentration of unemployment also provides no explanation. If anything, there is actually a smaller concentration of unemployment in States with strict UI qualifying regulations.

The severity and duration of the recession is not an important explanation for the relative decline in insured unemployment. It is a small part of the explanation, but it is not the major explanation that some analysts have suggested. We should recall that unemployed workers in 1976, like those in 1982 or 1983, suffered through a severe recession, but a high fraction of them were receiving jobless benefits (a far higher fraction than were receiving benefits between 1981 and 1984). Comparing jobless workers who had been unemployed that same lenght of time and had previous work experience of equal duration, the unemployed worker in 1981–84 was far less likely to receive regular UI than was a comparable worker in 1976.

The reason for this is that states and the federal government have significantly tightened up on the administration of regular UI programs. None of the changes have been so significant that they would cause newspaper headlines. But cumulatively, over the late 1970s and early 1980s, the system has been reformed in such a way as to cause a major tightening in benefits. In dollar terms, the effective cut in unemployment insurance has rivaled or exceeded the more publicized cuts in welfare, disability insurance, and food and nutrition programs. The cutbacks in UI have taken place across the country. No region has deviated from the national trend, although the cuts have varied in severity in different states.

Some of the most important specific changes have been the following:

Tighter administrative controls in the late 1970s. States were apparently more vigorous in enforcing the work search test, requiring visits to UI offices, and denying benefits because of employee misconduct. This trend may have deterred some benefit applications and shortened the period that some UI claimants received benefits.

Tougher treatment of private pension payments and social security retirement benefits. At federal instigation, states reduced or eliminated UI benefit awards to unemployed workers receiving pensions or social security payments. Previously, many workers who received these payments had been eligible to recieve UI.

Tougher disqualification provisions for quitting a job, being fired for misconduct, or failing to search actively for work. Several states raised the period of disqualification for UI benefits resulting from these causes.

Taxation of UI benefits. Before 1979, UI was exempt from federal income taxes. Starting in 1979, persons with incomes above certain limits were forced to pay taxes on UI benefits. In 1982 the income limits were lowered, raising the number of UI recipients affected by this reform. This may have deterred some benefit applications, but its main effect may have been to reduce adverse UI incentives, thus reducing the duration of insured spells of unemployment.

Tougher state triggers for the EB program and stricter federal eligibility criteria for EB benefits. The federal government effectively raised the EB trigger levels in 1981 and again in 1982. This reduced the number of states offering EB and shortened the period over which EB was offered. Although this reform does not directly affect the number of insured unemployed under regular programs, it may indirectly affect that number by reducing the adverse incentives arising out of the EB program. Workers may be less likely to exhaust regular UI benefits if EB benefits are not available, thus reducing the length of spells of regularly insured unemployment.

Imposition of a waiting week for regular UI benefits. In response to a recent federal law change, some states have imposed a requirement that applicants for UI

serve one week of unemployment before receiving compensation. This may reduce applications from unemployed workers who expect very short spells of unemployment.

Some of the most recent changes in state law and administrative practice may have been caused by the higher federal penalties that have been assessed on states with UI debts to the Federal Unemployment Account. In addition, the federal government has recently offered financial incentives to states in debt to the Federal Account to raise their taxes or reduce UI outlays. Hence, the trend toward state tightening of eligibility criteria should continue.

Reform of the extended and supplemental UI programs

Recent reforms in unemployment insurance have had the unfortunate consequence of reducing needed income protection and countercyclical macroeconomic stimulus. Compared to 1976, the nation spent about $15 billion less on the unemployed in 1982, and also spent substantially less in 1983 and 1984. Nonetheless, many recent UI reforms have made the program more efficient and have targeted UI benefits more strictly on those workers the program was originally intended to help. This is especially true of some recent reforms in the regular UI program, although it is less true of the 1981–82 reforms in the EB program. Extended benefits have become nearly worthless as an effective countercyclical program after September 1982, and part of the reason is the EB reform legislation passed in 1981.

The most important source of the contraction in the EB program, however, was the relative decline in the IUR. The unexpected fall in the IUR relative to the TUR brings into question its continued usefulness as a trigger for extended or supplemental unemployment benefits. This is the issue dealt with in HR 3863, originally introduced in the Senate by Senators Byrd and Heinz.

In principle, the ideal unemployment rate trigger would measure how difficult it is for typical workers to find jobs should they become unemployed. The duration of unemployment insurance protection could then be tied directly to the difficulty of finding a job. This permits the UI system to provide job losers with a relatively constant degree of income protection, irrespective of the current state of the economy. The simplest measure of the difficulty of job finding is what might be called the "job loser rate"—the ratio of current job losers to the number of currently employed. By excluding any measure of the situation of voluntary job leavers, new entrants, and reentrants, the job loser rate focuses squarely on the job prospects faced by the population insured by unemployment insurance—job losers. The total unemployment rate, or TUR, does not have this advantage. For that reason, I would slightly prefer using it rather than the TUR to trigger the EB program. (Senators Byrd and Heinz propose using the TUR.)

Since 1980 there has been a marked departure of the IUR from its previous relation to the job loser rate, for all of the reasons described earlier. The IUR, for example, seems to show that the job market situation was not markedly worse at the end of 1982 than it was at the low point of the mild 1970–71 recession. By contrast, the job loser rate, which was defined above, was more than twice as high at the end of 1982 as at the end of 1970. This seems to roughly correspond to the relative severity of the 1981–82 recession, as measured, for example, by payroll eemployment and GNP growth. For that reason, the job loser rate provides a superior measure of the same concept reflected in the IUR, at least at the national level.

Any substitute for the IUR in triggering extended jobless benefits should meet three criteria. It must specifically reflect the labor market situation of persons insured by UI. It must be available in a timely manner, either weekly or monthly. And it must be available on a state-by-state basis. The job loser rate and TUR meet the first two of these crieteria better than the IUR, with the job loser rate performing somewhat better than the TUR. But neither the job loser rate nor the TUR meets the third criterion. The current Population Survey (CPS) sample used to compute those rates is too small to permit accurate estimation of the number of job losers or unemployed workers in each state. The proposal by Senators Byrd and Heinz gets around this problem by using, as an alternative trigger rate, the 12-month moving average of the state-level TUR in those states where the CPS sample is too small to permit accurate monthly counts of the TUR. (In larger states the proposal calls for use of the seasonally adjusted, monthly state-level TUR).

A problem with a 12-month moving average unemployment rate as a trigger is that the rate moves very sluggishly. The moving average rate would rise very slowly in a recession and decline very slowly during a recovery. As a consequence, small states would offer extended benefits later in a recession than would states using the monthly TUR as a trigger rate. Benefits in the smaller states would also be available later in the recovery. The Byrd-Heinz triggering mechanism for smaller states

could be slightly improved by using a six- or even a three-month moving average TUR rate if the state-level TUR could be reliably seasonally adjusted. However, notwithstanding the deficiency of a 12-month moving average TUR as a trigger rate, the Byrd-Heinz proposal is superior to the existing method of triggering EB.

Several of the other provisions contained in HR 3863 also seem to me to represent improvements over current law. In particular, I would like to draw attention to a serious inequity in the FSC program. While the costs of that program are entirely paid out of general federal revenues, benefit levels are essentially determined by the individual states, since payment levels are the same as those set in states regular UI programs. Thus, in early 1983 the weekly benefit ranged from $90 in Alabama to $258 in Massachusetts. Even taking account of the fact that FSC benefits were available for a longer period in high-unemployment Alabama than in low-unemployment Massachusetts, the total amount of FSC paid to an unemployed worker could be much higher in Massachusetts than in Alabama. There is no obvious justification for 100-percent federal support of such unequal benefit awards. HR 3868, which aims to permanently replace both EB and FSC, offers a partial remedy for this inequity. It requires states to pay for a certain fraction of EB awards, even if the local unemployment rate is very high. Although high benefit states continue to gain from federal sharing of the costs of EB payments, they nonetheless must pay a fraction of the cost if they set unusually high benefit levels.

Unemployment insurance was originally designed to offer short-term income protection for job losers during temporary spells of unemployment. It was also intended to give an important countercyclical economic boost during periods of high national unemployment. Neither of these goals was achieved as well during the past recession as during earlier ones. The relative decline in the effectiveness of unemployment insurance will continue unless reforms are made in the system. Claims for regular UI benefits will remain low in comparison to the number of job losers unless state governments liberalize their programs. There is no sign of this occurring in the near future. Consequently, the IUR will remain a very poor index of the current labor market situation. In my opinion the present EB trigger should be replaced or supplemented by a trigger than more accurately reflects current labor conditions. A vital task for policymaking in the next few years is to restore the ability of the nation's unemployment insurance programs to deal with severe recession. The proposal by Senators Byrd and Heinz provides a reasonable mechanism for improving the extended and supplemental unemployment programs. The enactment of that proposal, or a similar one with the same general purpose, would be a worthwhile step in strengthening our unemployment insurance system.

Chairman FORD. Thank you very much. I just have one or two questions.

I am not quite clear when you talk about the TUR and you talk about the reports quarterly or biannually or monthly, the figures that could be used in determining the unemployment rate in any given State and using the TUR.

Mr. BURTLESS. Well, the problem with the TUR is probably the one the Labor Department mentioned when they responded to your questions. For small States the sample is very small. Consequently, there is a large monthly error or potential error in measuring what the unemployment rate, the total unemployment rate, is in small States.

Chairman FORD. What about the sub-State triggers, if the committee thought or leaned in that direction?

Mr. BURTLESS. I suspect that the sub-State triggers, except in the largest States, would be subject to exactly the same criticism. If the sample in the CPS is too small for accurate estimates of the unemployment rate solely with CPS data, for example, in a State the size of Virginia, then it is very doubtful that county measures of the total unemployment rate would be accurate if they are solely based on CPS data.

So any sub-State trigger has to be based upon a combination of data from the State unemployment insurance system and from CPS data. And I am not sure that sub-State data from the unem-

ployment insurance system is easily available in a lot of States. I just do not know.

Chairman FORD. How would we go about trying to identify and give the relief that would be needed in the program when we think in terms of those pockets of high unemployment, sub-State triggers or targeting concepts? We have had witnesses testify already today and several bills have been introduced into the Congress that address that particular problem on the sub-State triggers, and you are saying that the data would not be—I will not say would not be, but that we would be criticized?

Mr. BURTLESS. I am not an expert on the sub-State data that are available. From what I know about unemployment insurance data, I think it is not easy to use unemployment insurance data from small geographical areas in order to form an estimate of what the unemployment rate is in those areas. It will be very difficult, I suspect, at least for a few years.

Chairman FORD. But if we could use this data from the States, will we not be able to use that same data for the sub-State triggers?

Mr. BURTLESS. Yes, the data could be organized in that way, I am sure. But whether it is expensive or cheap to organize the data that way, I do not know. And the Labor Department is a better judge than I.

Chairman FORD. Do you see the unemployment program or the unemployment compensation program from a Federal perspective as being an area of legislation that we must address right away, before the expiration of the March 31 date, to come back with a comprehensive reform package, whether or not some witnesses—and one Member of Congress testified that we need to remove some of the tiers, speaking of the EB and the FSC.

Mr. BURTLESS. Well, I hope before the next serious recession occurs that there is a reform, at least in the extended benefit programs. Some of the previous witnesses have identified—and some of the legislation that has been proposed before Congress identifies—reforms that would improve the situation, that would make those extended and supplemental programs more responsive to the level of labor market distress.

So I regard that as important. Whether Congress should act before next March, I do not know about the advisability of that.

Chairman FORD. Labor market distress; should we also think in terms of this new reform package with the training provisions within it, or just benefits?

Mr. BURTLESS. I would favor a job search training provision in unemployment insurance. I think the studies we have of job-search training show that those programs are often worthwhile. They make a modest difference in people's ability to find work. They seem actually to help some people find work, and so for that reason they are probably worthwhile.

There is not a lot of evidence that many of the other things the Employment Service does are very helpful for unemployed workers, and so perhaps job search training would be worthwhile.

Chairman FORD. We are talking about a permanent program in case there is another downturn in the economy. But witnesses have testified before this committee today, and they have also talked

about the long-term unemployed, those who are no longer really being counted, those who are now classified as the new poor, those who have been able to—

Mr. BURTLESS. Sir, your question is should there be another extension of supplemental benefits after March? Is that your question?

Chairman FORD. Well, we want to go beyond that. I think this is what the committee is looking at now, whether or not we should construct a comprehensive reform package to do away with the old system and to come back now to structure a new system and respond to the new problems which we are faced with; in other words, whether we are talking about a permanent program that would be 52 weeks of Federal unemployment compensation tied into another job placement training, search, or whatever we want to call it.

We are trying to go beyond what this committee and this Congress took action on in the first session of this Congress. We thought about a reform package 12 months ago, but we did not have the time. We have months before the expiration of the Federal supplemental program.

Many witnesses have testified in talking about the future, the downturn of the economy in the future. But I am still hearing from these witnesses, and I know so well myself, that there are 8.5 million people who are still out of work, there are many of those who have already exhausted all of their benefits.

You stated in your testimony today that there is a lower proportion of those unemployed people who have received those benefits in July and August than any other given months. We have not structured the system to touch all of those who have been forced out of the work force through no fault of their own, and we have no provisions within the Federal supplemental benefits or the extended benefits, if there was a State to have triggered on. We have no program to set in motion the job placement, job training, job search, or any other provisions within the program at the present.

Mr. BURTLESS. Well, with respect to unemployment insurance per se, it seems to me that there are two goals that I would seek to achieve in the program: countercyclical stimulus when the economy is very depressed and income protection that rises as the economic distress gets worse.

Many principles that are in the proposal of Senators Byrd and Heinz are ones that I also subscribe to. Benefits should be of longer duration in States where unemployment is higher. The Federal matching rate—the Federal contribution to States, to State unemployment insurance systems—should be higher for those States which are experiencing more severe unemployment.

But it seems to me that there is no call to make unemployment insurance so generous that no person exhausts it. Unemployment insurance as I understand it is in this country a temporary supplement for lost wage income. It is not a permanent supplement for lost wage income, as it is in some countries in Europe; and I do not advocate changing that.

Chairman FORD. Well, we have no plans for making it permanent, that if you were laid off from your job that you would draw

unemployment benefits for the rest of your life. We have no intentions of doing that.

But at the same time, we are concerned as it relates to the provisions that will be in this new legislation if there is a bill to be forthcoming, and I as chairman of this committee am very much concerned as to how we should structure the legislation and where we should be headed with it or whether or not we ought to give some Federal supplemental benefits, some temporary benefits for the unemployed, or whether we structure that with a bill that will address some of the other problems in trying to place those displaced workers who have been forced through no reason of their own out of a job and place them in another job through training or job search or whatever it might be.

Mr. BURTLESS. I guess I would prefer to give my views about job search training in another forum. The thing I have studied in preparing my testimony today is the unemployment insurance system per se, the income protection available and the countercyclical stimulus.

Chairman FORD. Well, in order for us to deal with the insurance protection system and the unemployment compensation, I think the subcommittee would like to go beyond just those temporary benefits for the unemployed and see how we can structure some new legislation that would in fact protect those unemployed workers and also protect the intent of the system itself.

But I want to thank you very much for appearing before the committee.

Mr. BURTLESS. Thank you very much.

Chairman FORD. Our next witness is Mr. Scott B. McDonald, president of the Interstate Conference of Employment Security Agencies. We would like to welcome you to the committee, Mr. McDonald.

STATEMENT OF SCOTT B. McDONALD, DIRECTOR, IDAHO DEPARTMENT OF EMPLOYMENT, AND PRESIDENT, INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY AGENCIES, INC.

Mr. MCDONALD. Thank you very much, Mr. Chairman and members of the committee.

I am the director of the Idaho Department of Employment and currently serving in the capacity of the president of the Interstate Conference of Employment Security Agencies, which translates to, we operate the unemployment insurance programs in the States and then, whatever Congress decided or used to decide or did decide in terms of extended benefits, we operated those programs as well and as fast as we could put them in place throughout the past recessions.

I would like to speak on behalf of the Interstate Conference and bring this testimony here today. I think, Mr. Chairman, you are to be commended for scheduling this examination of the Unemployment Insurance Program now. It is important that we look at it now while we are not in the heat of higher and yet even higher unemployment, as sometimes FSC was changed or extended in the heat of the need. So I think you are to be commended for scheduling these hearings now.

Before I address some of your specific concerns, I would like to point out, in an administrative sense the system has performed extremely well in terms of who did get paid, not necessarily in who did not. As an example, record numbers of claims were processed, billions of dollars were paid, and without major delays.

A couple of examples in the testimony that we provided. In fiscal year 1982, $21 billion was paid to 11 million-plus recipients, with 90 percent receiving their first payment within that Federal standard of 14 days. In fiscal year 1983, the $21 billion moved up to almost $30 billion, 10 million beneficiaries; and the timeliness standard again exceeded 87 percent, first pays within 14 days which is the national timeliness standard.

In addition to that, there were three versions of Federal supplemental compensation put in place practically overnight. I want to bring to your attention that the staff in both the central offices of the various States and in those local offices worked overtime and many long hours and sometimes without any pay to put those changes in place.

My colleagues and I are very proud of that staff's performance, and we want to bring their dedication to your attention because we think they deserve some national recognition. We certainly have been trying to give them the recognition they deserve in the State, but by putting this into testimony, we think they deserve national recognition and to date they have not received that from any source at the national level.

Moving on now to address some of your concerns, why did so few receive benefits? There are several different ways to look at the performance of the unemployment insurance system. I just gave you one, in terms of how many did get paid and how fast. But one frequent question is that only 48 percent of the unemployed were receiving benefits in November of 1982, and that was considerably fewer than in previous recessions. In 1975 about 78 percent of the unemployed received benefits.

In our testimony we have quoted extensively from the gentleman that was just before you, and his study points out that during 1975–76 there were 65 weeks of potential availability in all States. During this 1982–83 period, the number of weeks varied among the States from 34 to a high of 55. So if the available weeks are a lot lower, you start to get at the answer of why so few as a percent of the total unemployed received benefits.

In talking about the EB trigger-one issue, there is a combined effect of many changes that were put into place in 1981 with the Omnibus Reconciliation Budget Act of 1981: a revision in the calculation of the triggers, the elimination of the national EB trigger, and the higher State triggers that took effect October 1, 1982.

If you want to find out what was wrong or why so few received benefits, you have to go back to that act—OBRA 1981—and find out what Congress did and why Congress did it. We paid according to that law and that law restricted substantially the way the trigger mechanisms operated.

I am not so sure there is anything wrong with the IUR. But rather the way it was recalculated for EB benefits is the problem. Another factor has been the unanticipated drop in the IUR at the

State level. So let me talk about the IUR for a moment and the TUR.

Again, I would like to point to three changes at the Federal level in terms of why the IUR is declining. The first one is the requirement to reduce UI benefits by the amount of pensions, again a Federal requirement and cost-saving measure; No. 2, the taxation of UI benefits; and No. 3, the reduction in the number of local offices where benefits could be claimed. This was done due to administrative budget cutbacks. In some cases, if the benefit amount you were to draw does not offset the cost of travel to a local office in a rural State like Idaho, you will not apply for it.

Others have speculated that other factors might be tighter qualifying requirements enacted by some States to qualify for partial relief from the Federal loan recapture provisions, as well as restoring depleted trust funds. At the end of my testimony, I would be glad to outline what Idaho did legislatively to avoid borrowing.

Let me talk about the TUR for a moment, then. The TUR, the total unemployment rate, is an estimate of the number of people who are looking for work, both those receiving UI and those who are not, as a percent of the labor force. State TUR data are collected by the Bureau of Labor Statistics by sampling households in the 10 largest States. And so I would say if you want to use the TUR in those 10 States, it probably has some validity.

In the remainder of the country, you will find it very unsatisfactory as a trigger. Some of its weaknesses as a trigger are due to its variability. Another weakness is frequency. We collect it once a month, however, benefits are paid on a weekly basis. You will find using a monthly trigger a very difficult situation.

I think if you want precise trigger points you would have to pay a lot more money collecting data in those other 40 States than I think this administration seems to be willing to propose for the collection of all BLS data.

I want to bring to your attention that the unemployment insurance committee of ICESA is working on an alternative to H.R. 3863, and the reason we are working on that alternative is that we are very much impressed with many of the concepts in that bill. The mechanics of it we have problems with, and we figure it is more responsive to come back with the solutions than just mentioning the problems with H.R. 3863.

I would have been very delighted today to hand you our package if it were ready to go, but it is not, and we hope it will be ready within the next 2 months.

Chairman FORD. And we would hope that you would send a copy to the committee, so we would have it for the record, if you do not mind.

Mr. MCDONALD. We certainly will do that.

We are excited about many of the provisions in H.R. 3863, but when it comes down to the fiscal impacts of how that bill rolls out then we find it very difficult to support. For example, based upon the structure of the benefit levels, the tiers, and the fiscal responsibility in H.R. 3863, it appears that the outlays from both State trust funds and the Federal unemployment trust fund would have been increasingly higher during the last recession.

The UI system is currently struggling to regain solvency. Twenty-six States have debts totaling $10 billion plus, and the addition of unanticipated financial liabilities would be a detriment to this effort. But again, we hope to complete our work and come back here with an alternative that embraces the concept in a manner that we think is more fiscally responsible.

Before concluding here today, I may be the only organization to bring to your attention some other areas of needed reform in the unemployment insurance system, but I want to bring those to your attention. Despite that yeoman effort that I referred to, in terms of the staff making those payments in a timely fashion, the financial policies of the Department of Labor hampered rather than helped our efforts to manage both the high claims load during the recession and the subsequent decline.

During the last recession, up to 70 percent of the claims staff were temporary workers rather than permanent staff. Temporary workers are necessary to deal with the fluctuations. However, when they actually outnumber our permanent staff the quality of our program operations are seriously affected. Adding to this problem was the underfunding of the actual cost of those temporary staff.

Another area is the lack of flexibility in managing the administrative funds, and that continues to be a problem. An example: We get quarterly recapture of earned but unused money; no way to plow that money back into system improvements in terms of how we more efficiently administer the program. DOL takes it back sometimes each quarter.

Another area that I think I would be remiss if I did not point out is the problem of the inadequate funding of the overhead costs of such items as office rental, utilities, and data processing. Several States are forced to close local offices that have historically been available and which the claimant has to rely upon.

Another area that I think you really need to be aware of is the computer systems in many of the States consist of patchwork programs run on antequated computers. Computers in more than one-half of the States are over 5 years old, and of these, 11 States have computers that are more than 10 years old. If you think we are ready for the next recession, the system is not, neither administratively nor, as this committee has been delving into, programmatically; and I encourage you to look at both areas.

With that, I will be happy to respond to any questions that you may have.

[The prepared statement follows:]

STATEMENT OF SCOTT B. MCDONALD, DIRECTOR, IDAHO DEPARTMENT OF EMPLOYMENT AND PRESIDENT, INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY AGENCIES, INC.

Mr. Chairman and members of the Subcommittee, my name is Scott B. McDonald. I am Director of the Idaho Department of Employment and President of the Interstate Conference of Employment Security Agencies, Inc. (ICESA). I speak to you today on behalf of ICESA which is the organization of the state administrators of unemployment compensation laws and public employment offices throughout the country.

Mr. Chairman, you are to be commended for scheduling this examination of the employment insurance program. Now is a good time to evaluate the performance of the system during the last recession and thoroughly analyze whether changes are

needed. It is important to begin this process now so that decisions can be made before the next economic downturn.

Administrative performance

Before addressing some of your specific concerns, I would like to point out that, in an administrative sense, the system has performed extremely well. A record number of claims were processed and billions of dollars of benefits were paid without any major delays, as illustrated below:

	Fiscal year 1982	Fiscal year 1983
Benefits paid (billions)	$21.8	$29.3
Beneficiaries (millions)	11.6	10.1
Timely first payments (percent)	90.3	88.3

In addition, three different versions of federal supplemental compensation were put in place practically over night. Staff in central administrative offices as well as local unemployment insurance offices all over the country worked long hours, some of it on their own time, to make sure that the checks went out when due. My colleagues and I are very proud of these workers. I bring their dedication to your attention because they deserve national recognition.

Why did so few receive benefits?

There are several different ways to look at the performance of the unemployment insurance system during the last recession. One question that is frequently asked concerns the percent of unemployed workers who receive benefits. Only about 48 percent of the unemployed were receiving benefits in November 1982. This is considerably fewer than in previous recessions. In 1975, about 78 percent of unemployed workers received benefits.

This issue was examined by Gary Burtless of the Brookings Institution in his paper, "Why Is Insured Unemployment So Low?" He concluded that the major reason for the drop is simply that fewer weeks of benefits were available during the recent recession than were available in the mid 1970's. During the 1975-76 period, 65 weeks wer potentially available in all states; in the 1982-83 period, the number of weeks available varied among states from 34 to 55.

Why didn't EB trigger "On"?

One of the major reasons that fewer weeks were available is that the extended benefits (EB) program did not trigger "On" in a number of states and was on for only a short period in others. This is attributable to a great extent to the combined effect of changes made to the extended benefits program by the Omnibus Budget Reconciliation Act of 1981: a revision in calculation of the trigger, elimination of the national EB trigger and the higher state triggers that took effect October 1, 1982. Another factor is the unanticipated drup in the Insured Unemployment Rate (IUR) compared to the Total Unemployment Rate (TUR).

What's wrong with the IUR?

The explanation for lower insured unemployment has puzzled students of the UI program for the last several years. In his paper, Mr. Burtless cites three changes made at the federal level in the regular UI program since 1978 that would contribute toward this decline: 1) the requirement to reduce UI benefits by the amount of pensions; 2) the taxation of UI benefits; and 3) the reduction in the number of local offices where benefits can be claimed (due to administrative budget cuts). Others have speculated that another factor might be tighter qualifying requirements enacted by some states to qualify for partial relief from federal loan repayment requirements as well as restoring depleted trust funds.

What's wrong with the TUR?

Whatever the explanation for lower insured unemployment relative to total unemployment, the question that must be addressed is whether another measure of unemployment would be more appropriate as a trigger for extended/supplemental benefits. The most obvious alternative is the Total Unemployment Rate (TUR). The TUR is an estimate of the number of people who are looking for work—both those receiving UI and those that are not—as a percent of the labor force. State TUR data

are collected by the Bureau of Labor Statistics by sampling households in the ten largest states and by making statistical adjustments to a sample of UI claims in the remaining states.

The TUR has some strengths as an indicator of the need for additional weeks of benefits but also has some significant weaknesses. It's strengths include comparability among states and the inclusion of unemployed workers who have already received all of their UI benefits but have not yet returned to work. Many believe that the need for extended or supplemental benefits should be based on the opportunity for those exhausting benefits to find unemployment.

The major weakness of the TUR as a trigger is its variability. Because it is an estimate, there is a margin of error. That error range is larger in state rates than in the national rate. Because of this, TURs tend to jump up or down by several percentage points from one month to the next. In triggering the payment of benefits, specific employment levels are set—below that level, no benefits are paid—above it they are. Because the TUR is actually a range rather than a precise point, it would not work very well as a trigger.

In addition, the TUR is available only on a monthly basis rather than weekly, as UI claims are paid. Gathering TUR data on a weekly basis is possible but would be very expensive.

Another alternative

The Unemployment Insurance Committee of ICESA is working on an alternative extended/supplemental benefit proposal. The trigger mechanism that we are examining is a modified insured unemployment rate that includes those who exhaust regular benefits. There are several different ways to do this. We are currently testing one of the options and expect to have specific recommendations for you within a few months.

Comments regarding H.R. 3863

In addition to the issues discussed above, we would like to comment briefly on several of the concepts embodied in H.R. 3863. That bill would replace the current EB and FSC program with one comprehensive program paying a variable number of weeks based on the level of unemployment in the state. There would be a sliding scale of financial responsibility between the state and federal government—the higher level of unemployment, the greater the federal share. There would be a similar sliding scale between Federal Unemployment Tax (FUTA) revenues and general revenues in paying for the federal share—the higher level of unemployment the larger the general revenue contribution.

We believe these concepts are very sensible. Benefit tier levels are necessary in any plan to combine EB and FSC. The concept of increasing federal responsibility for financing and increasing the general revenue share of that responsibility is consistent with the philosophy of the current system and our longstanding policy that benefits beyond 39 weeks should be financed from general revenues.

The financial impact, however, is a critical factor in evaluating any plan for an extended/supplemental benefit program. Based on the structure of benefit levels, triggers and financial responsibility in H.R. 3863, it appears that outlays from both state trust funds and the federal unemployment trust fund would have been increased substantially during the last recession. The UI system is currently struggling to regain solvency, 26 states have debts totaling $10.6 billion. The addition of unanticipated financial liabilities would be detrimental to this effort. While we cannot support the specific triggers, benefit levels and financing arrangement of H.R. 3863 due to the financial impact, we do support many of its concepts. As I mentioned a few moments ago, we are developing an alternative extended/supplemental benefit approach that will include some of the ideas contained in H.R. 3863. As soon as we complete our work, we will make more specific recommendations to you.

Administrative funding

Finally, I would like to bring to your attention several issues that relate to administrative funding. The financial policies of the Department of Labor hampered rather than helped our efforts to manage both the high claims load during the recession and the subsequent decline in claims.

During the last recession, up to 70 percent of our claims staff were temporary workers rather than permanent staff. Temporary workers are necessary to deal with fluctuations in the level of claims; however, when they actually outnumber permanent staff, the quality of our program operations can be seriously affected. Adding to this problem was the underfunding of the actual salary cost of the temporary staff.

A lack of flexibility in managing administrative funds continues to be a problem. The inability to shift funds between program categories and the recovery of unused funds each quarter hampers good program management.

Perhaps our most critical financial problem is simply inadequate funds for overhead cost items such as office rental, utilities and data processing. Several states are forced to close local offices because the funds available to them will no longer support the local office system that was maintained for years. Computer systems in many states consist of patch-worked programs run on antiquated computers. Computers in more than one-half the states are over five years old. Of these, 11 are more than 10 years old. This has been a very brief overview of administrative financing problems in the unemployment insurance program. We will be happy to provide more detailed information concerning any of these issues to you or your staff.

Thank you for this opportunity to present our views. I will be happy to respond to any questions you have.

Chairman FORD. Thank you very much, Mr. McDonald, for your testimony. I do not think the Chair has any questions right now, but we would look forward to you forwarding to us a copy of the alternative package that you have made mention of in your testimony before the committee today. We would like to have the opportunity to review that.

We will be conducting hearings on this particular issue for the next couple of months, before the new Congress in January convenes, and we hopefully will have information from witnesses all over the country. So we will be privy to that information in a fashion that we can draft legislation that will in fact be sound legislation and clear legislation, hopefully will not have a fiscal impact that would be too great to devastate the budget in the Congress.

Mr. MCDONALD. Mr. Chairman, I would be pleased and honored to submit that to you. It is my intention, and I have been telling this to my colleagues, if we can't help design a better system and we are the ones who are operating it, then no one can. And we think it is a possible task.

Chairman FORD. Well, we certainly look for the input and we certainly are asking the States to help us design it and to draw up the legislation, to draft the legislation, in a fashion that all States and everybody will be very proud of.

Mr. McDonald, thank you very much.

Mr. MCDONALD. Thank you.

Chairman FORD. I would like to call the American Federation of Labor and Congress of Industrial Organizations, Mr. Bob McGlotten, associate director, department of legislation, and the American Federation of State, County and Municipal Employees, Mr. Charles Hughes, chairman of the school employee advisory committee and president of Local 372 of New York City, and he is accompanied by Charles Loveless, the legislative representative with the State, County and Municipal Employees.

I as chairman would like to welcome the two witnesses before the committee, and it goes without saying that, Bob, we certainly look forward every year—every time there is legislation, not every year, but sometimes it is every 6 months, in dealing not only with unemployment compensation but many, many more issues that we deal with on this Subcommittee on Public Assistance.

I have not had the opportunity to welcome Mr. Hughes before the committee yet. I have had the opportunity to meet with him and some of his officials at the headquarters here in Washington,

and I would like to also welcome you before the committee. I did not think I would have you before my committee. I would like to welcome you here today.

You may proceed, Mr. McGlotten.

STATEMENT OF ROBERT McGLOTTEN, ASSISTANT DIRECTOR, DEPARTMENT OF LEGISLATION, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS, ACCOMPANIED BY JIM ELLENBERGER, SPECIAL REPRESENTATIVE ON UNEMPLOYMENT COMPENSATION, AFL-CIO

Mr. MCGLOTTEN. Thank you very much, Mr. Chairman. I am Robert McGlotten, the associate director of the Legislative Department of the AFL-CIO. On my left is Jim Ellenberger, who is our special representative on unemployment compensation.

We appreciate this opportunity to appear before you to present the views of working people in this country on the adequacy of our unemployment insurance system. Despite the growing reports of a resurgence in the Nation's economic health, 7.5 percent or more or 8.5 million Americans are jobless at this moment. Many of them have been off work for more than a year, and of those 8.5 million only 2.5 million are currently receiving unemployment benefits.

Tens of millions of workers look to our Government when they are subject to the humiliation and distress of being jobless in the world's largest economy. For nearly 50 years, unemployment insurance has been an important U.S. program essential to the health and security of millions of American families and vital to the stabilization of the economy during recessions.

During the past 3½ years, the basic protections of the UI program have been drastically weakened. Consider that today under this administration 70 percent of the unemployed go without UI benefits of any kind. The purchasing power of UI benefits has dropped 35 percent in comparison with the recession period in 1975. The duration of UI benefits has dropped nearly 40 percent for the long-term unemployed, and although unemployment remains high, no State currently qualifies for extended benefits.

Many States are imposing, as a result of very high unemployment during the recent recession and demands on UI trust funds, their own harsh restrictions on top of those which have been federally established, thereby adding to the inequities that already exist.

During the Reagan recession, when unemployment reached the highest level since the Great Depression, the income protection and countercyclical stimulus available from unemployment compensation were significantly and purposefully reduced. Today, even with the availability of Federal supplemental compensation of varying durations, only 30 percent of the jobless are receiving benefits.

In February 1975, during the worst previous recession, 76 percent of the unemployed were receiving benefits. In the 1972-73 recession, the maximum duration of jobless benefits was 52 weeks. In the 1975-77 recession, it was 65 weeks. Today that maximum duration of unemployment compensation is 40 weeks, and those 40 weeks are only available in seven States. Mr. Chairman, in the vast majority of jurisdictions only 34 weeks of benefits are available to the long-term unemployed.

We are not talking about abstract figures or faceless numbers. We are not talking about people who have great amounts of savings tucked away or people who can transform themselves into high-tech marvels or people who can uproot themselves and their families and move to the Sunbelt or wherever jobs are said to exist in this so-called recovery.

We are talking about people who have had to give up homes, people who have had to say no to their children's requests for new shoes and clothes, people who have become ashamed to meet with and see their friends and relatives, people who have lost their health protection, people who have become depressed, and worse, Mr. Chairman, people who have lost faith in the hope that they once had for the future.

This country was founded on the principle of equal justice and protection under the law. We need an unemployment insurance system which provides partial wage loss replacement to the unemployed, which is fair, compassionate and adequate, in an America that should be the leader and the example for other nations of this world.

The AFL–CIO has long argued that the unemployment compensation program should be a Federal program with uniform benefits and taxes. Because it is a Federal-State system with the States playing a major role in determining the most important aspects of the basic program, we support the 1980 recommendations of the National Commission on Unemployment Compensation, which called for Federal minimum standards.

The AFL–CIO believes that all wage and salary workers should be covered on a permanent basis. UI benefits should be two-thirds of the worker's wage up to a maximum of not less than three-fourths of the statewide average weekly wage. Harsh eligibility and disqualification provisions should be removed.

A permanent program of Federal supplemental benefits with a maximum duration of at least 65 weeks should be established, and the restrictive system of triggers should be eliminated, Mr. Chairman.

But if we must have triggers, the total unemployment rate, the TUR, rather than the artificial insured unemployment rate, the IUR, should be used. Today not a single State qualifies for the extended benefits program under changes brought about by this administration. This situation exists despite the fact that 16 States have unemployment rates higher than the national average of 7.5 percent, and 4 of them continue to experience unemployment rates in excess of 10 percent.

Both the extended benefit program and the Federal Supplemental Compensation Program are key to the insured unemployment rate. But while the total unemployment rate remains at 7.5 percent, the IUR rate is only 2.7 percent. The resulting gap of nearly 5 percent translates into misery and deprivation for long-term unemployed persons. This situation is scheduled to get worse when the Federal Supplemental Compensation Program expires at the end of March next year.

There are several bills pending, Mr. Chairman, especially H.R. 3863, introduced by Mr. Stark, Mr. Pease, and Ms. Kaptur, and

H.R. 5502, introduced by Mr. Evans, that would significantly improve the situation for the long-term unemployed.

H.R. 3863 would establish a new program of benefits to replace the existing EB and FSC programs, and H.R. 5502 addresses the need to use the total unemployment rate as the basis for determining the eligibility of benefits.

While we are encouraged by this legislation to remedy some of the defects and inequities in unemployment compensation for the long-term jobless, more needs to be done.

The AFL–CIO urges improvements in the financing of the unemployment insurance system. This should be accomplished through Federal legislation that would establish a system of reinsurance to help States meet extraordinary costs during high unemployment, require States to increase the taxable wage base to 65 percent of the average annual wage by 1990, and allow flexibility in the repayment of loans by the States in periods of high unemployment and recession.

Such legislation should provide for the reimbursement from general revenues to all States for their share of extended benefits and the excess cost of regular benefits during recessions. Additionally, States should be required to repay loans and the interest on them only when State unemployment trust funds reach 125 percent of the previous year's benefit payments, thus deferring loan repayments during periods of high unemployment and recession.

The AFL–CIO remains convinced that the most equitable approach to providing supplemental to the long-term unemployed is the establishment of a permanent program that would provide benefits for at least 65 weeks in all phases of the business cycle. If this goal cannot be achieved, Mr. Chairman, we urge you to report out a bill which would substantially improve upon the current program of unemployment compensation for the long-term jobless.

And you can rest assured, Mr. Chairman, that we will be willing to work with you and your staff to try to accomplish the same.

[The prepared statement follows:]

STATEMENT OF ROBERT MCGLOTTEN, ASSISTANT DIRECTOR, DEPARTMENT OF LEGISLATION, AMERICAN FEDERATION OF LABOR & CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. Chairman, members of the Committee, I am Robert McGlotten, Assistant Director of the Legislative Department of the AFL–CIO. We appreciate this opportunity to appear before you to present the viewpoints of working people in this country on the adequacy of our unemployment insurance system. Despite the glowing reports of a resurgence in the nation's economic health, 7.5 percent or more than eight and a half million Americans are jobless at this moment. Many of them have been without work for more than a year. And, of these eight and a half million jobless only two and a half million are currently receiving unemployment benefits.

Tens of millions of workers look to our government when they are subjected to the humiliation and distress of being jobless in the world's largest economy. For nearly fifty years unemployment insurance has been an important U.S. program essential to the health and security of millions of American families and vital to the stabilization of the economy during recessions.

During the past three and a half years, the basic protections of the UI program have been drastically weakened. Consider that today, under this Administration—

70 percent of the unemployed go without UI benefits of any kind,

The purchasing power of UI benefits has dropped 35 percent in comparison with the recession period in 1975,

The duration of UI benefits has dropped nearly 40 percent for the long-term unemployed, and

Although unemployment remains high, no state currently qualifies for Extended Benefits.

Many states are imposing, as a result of very high unemployment during the recent recession and demands on UI trust funds, their own harsh restrictions on top of those which have been federally established thereby adding to the inequities that already exist.

During the Reagan Recession, when unemployment reached the highest levels since the Great Depression, the income protection and countercyclical stimulus available from unemployment compensation were significantly *and* purposely reduced. Today, even with the availability of Federal Supplemental Compensation of varying duration, only 30 percent of the jobless are receiving benefits. In February 1975, during the worst previous recession, 76 percent of the unemployed were receiving benefits.

The average weekly benefit level in 1983 was $120 or 40 percent of the average weekly wage in covered employment. This represents a drop of 35 percent in the purchasing power of unemployment insurance benefits in comparison with the situation in 1975.

In the 1972–73 recession the maximum duration of jobless benefits was 52 weeks. In the 1975–77 recession it was 65 weeks. Today the maximum duration of unemployment compensation is 40 weeks. And those 40 weeks are only available in 7 states; in the vast majority of jurisdictions only 34 weeks of benefits are available to the long-term unemployed.

Mr. Chairman, we are not talking about abstract figures or faceless numbers. We are not talking about people who have great amounts of savings tucked away, or people who can transform themselves into high-tech marvels, or people who can uproot themselves and their families and move to the sun-belt or wherever jobs are said to exist in this so-called recovery.

We are talking about people who have had to give up their homes, people who have had to say no to their children's requests for new shoes and clothes, people who have become ashamed to meet with and see their friends and relatives, people who have lost their health protection, people who have become depressed and, worse, people who have lost faith in the hope that they once had for the future.

This country was founded on the principle of equal justice and protection under the law. We need an unemployment insurance system which provides partial wage loss replacement to the unemployed, which is fair, compassionate and adequate in an America that should be the leader and the example for other nations of the world.

The AFL–CIO has long argued that the unemployment compensation program should be a federal program with uniform benefits and taxes. Because it is a federal-state system, with the states playing a major role in determining the most important aspects of the basic program, we support the 1980 recommendations of the National Commission on Unemployment Compensation which called for federal minimum standards.

The AFL–CIO believes that—

All wage and salary workers should be covered on a permanent basis;

UI benefits should be two-thirds of the worker's wage up to a maximum of not less than three-fourths of the statewide average weekly wage;

Harsh eligibility and disqualification provisions should be removed;

A permanent program of federal supplemental benefits with a maximum duration of at least 65 weeks should be established; and,

The restrictive system of triggers should be eliminated—but if we must have triggers the total unemployment rate (TUR) rather than the artificial insured unemployment rate (IUR) should be used.

Today not a single state qualifies for extended benefits under changes brought about by this Administration. This situation exists despite the fact that 16 states

have unemployment rates higher than the national average of 7.5 percent and four of them continue to experience unemployment rates in excess of 10 percent.

Both the Extended Benefits (EB) and Federal Supplemental Compensation (FSC) programs are keyed to the Insured Unemployment Rate (IUR). But while the total unemployment rate remains at 7.5 percent, the IUR is only 2.7 percent. The resulting gap of nearly 5 percent translates into misery and deprivation for the long-term unemployed. This situation is scheduled to get worse when the Federal Supplemental Compensation program expires at the end of March next year.

There are several bills pending, especially H.R. 3863, introduced by Mr. Stark, Mr. Pease, and Ms. Kaptur, and H.R. 5502, introduced by Mr. Evans, that would significantly improve the situation for the long-term unemployed.

H.R. 3863 would establish a new program of benefits to replace the existing EB and FSC programs, and H.R. 5502 addresses the need to use the total unemployment rate as the basis for determining the availability of benefits.

While we are encouraged by this legislation to remedy some of the defects and inequities in unemployment compensation for the long-term jobless, more needs to be done.

The AFL-CIO urges improvements in the financing of the unemployment insurance system. This should be accomplished through federal legislation that would establish a system of reinsurance to help states meet extraordinary costs during high unemployment, require states to increase the taxable wage base to 65 percent of the average annual wage by 1990, and allow flexibility in the repayment of loans by the states in periods of high unemployment and recession. Such legislation should provide for the reimbursement from general revenues to all states for their share of extended benefits and the excess cost of regular benefits during recessions. Additionally, states should be required to repay loans and the interest on them only when state unemployment trust funds reach 125 percent of the previous year's benefit payments, thus deferring loan repayments during periods of high unemployment and recession.

The AFL-CIO remains convinced that the most equitable approach to providing assistance to the long-term unemployed is the establishment of a permanent program that would provide benefits for at least 65 weeks in all phases of the business cycle. If this goal cannot be achieved, we urge you to report out a bill which will substantially improve upon the current program of unemployment compensation for the long-term jobless.

STATEMENT OF CHARLES HUGHES, CHAIRMAN, SCHOOL EMPLOYEES ADVISORY COMMITTEE, AND PRESIDENT, LOCAL 372, AMERICAN FEDERATION OF STATE, COUNTY & MUNICIPAL EMPLOYEES, ACCOMPANIED BY CHARLES M. LOVELESS, LEGISLATIVE REPRESENTATIVE

Mr. HUGHES. Thank you, Mr. Chairman, for allowing me to appear before you this afternoon.

I am Charles Hughes, and I am chairperson of the school employees advisory committee of the American Federation of State, County & Municipal Employees, AFSCME, and president of Local 372, Board of Education Employees, District Council 37 in New York City. Accompanying me today is Charles Loveless of AFSCME's department of legislation, and we are appearing today on behalf of the more than 1 million members of AFSCME who work in State and local governments across this Nation.

With your permission I would like to ask that our written statement be included in the record.

Chairman FORD. Mr. Hughes, your written statement will be made a part of the record, and you may proceed with an overview of it.

Mr. HUGHES. Thank you, sir.

We commend the subcommittee for holding this general oversight hearing on the Nation's unemployment compensation system and for specifically focusing on the question of the adequacy of the

protection it provides. We want to use our allotted time today to raise an issue of critical concern to the hundreds of thousands of nonprofessional school employees across this Nation.

As part of the Social Security rescue package which was adopted by Congress last year, a provision was included requiring the State to deny unemployment benefits between academic years or terms to nonprofessional public school employees if they have reasonable assurance of returning to work in the next academic year.

It should be noted that this automatic blanket denial requirement was added to the Social Security bill without the benefit of normal legislative deliberations. The provision was attached to the Senate version of the Social Security bill during the Finance Committee's consideration of the bill. No hearings have ever been held on this issue, and there was not a comparable provision in the House Social Security bill.

As you can recall, Mr. Chairman, this was one of the last issues to be resolved by the House and Senate conferees on the 1983 Social Security Amendments. As a result of this new Federal mandate, thousands of nonprofessional employees of elementary, secondary, and higher educational institutions have lost protection against unemployment between academic years or terms.

While we have had only limited experience with the law—it was only recently made effective—we already know that the impact has been devastating for many school workers and their families. Nonprofessional school employees—the custodians, cafeteria workers, busdrivers, crossing guards, and secretaries—who run our schools are among the lowest paid group of workers in the Nation, with many working at or near the minimum wage level.

A recent salary survey conducted by the Education Research Service, which we have attached to our written statement, clearly indicates the very low level of compensation received by nonprofessional school employees.

There are several compelling policy reasons why the automatic blanket denial requirement should be eliminated. First, as a matter of basic equity, we do not see why nonprofessional public school employees should be singled out for unequal treatment in the law. In our view, it is unconscionable to deny unemployment benefits between terms to the lowest paid group of public employees when those public and private employees who perform work which is also characterized by regularly recurring lapses in activity are not denied such benefits under Federal law.

A second major reason why the automatic blanket denial requirement should be eliminated is that there already exists adequate mechanisms within the Federal-State unemployment compensation system for denying unworthy benefit claims. All unemployment compensation applicants, including nonprofessional school employees, must satisfy the rigorous eligibility requirements set forth in State law for receiving such benefits.

Finally, we believe the automatic blanket denial requirement has served to undermine the basic principles for which the unemployment compensation program was established in the 1930's. As noted in a recent General Accounting Office report, the objective of the program "has been to provide temporary protection for qualified workers who lose jobs until they can either be rehired or find

new employment." Unfortunately, the basic objective of the program has been seriously compromised by the automatic blanket denial requirement imposed by the Social Security Amendments of 1983.

In conclusion, as you consider proposals to improve the Federal-State unemployment insurance system, we strongly urge you to give serious consideration to eliminating the automatic blanket denial requirement pertaining to nonprofessional school employees.

I thank you for the opportunity to present our views on this matter of utmost concern to public school workers, and we stand ready to answer any questions you may have.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF CHARLES HUGHES, CHAIRMAN, SCHOOL EMPLOYEES ADVISORY COMMITTEE, AND PRESIDENT OF LOCAL 372, AMERICAN FEDERATION OF STATE, COUNTY & MUNICIPAL EMPLOYEES

Mr. Chairman, and distinguished members of the Subcommittee on Public Assistance and Unemployment Compensation, I am Charles Hughes, Chairman of the School Employees Advisory Committee of the American Federation of State, County and Municipal Employees (AFSCME) and President of Local 372, Board of Education Employees, District Council 37 in New York City. I am accompanied by Charles M. Loveless of AFSCME's Department of Legislation. We are appearing today on behalf of the more than one million members of AFSCME who work in state and local governments across the nation.

We commend the Subcommittee for holding this general oversight hearing on the nation's unemployment compensation system and for specifically focusing on the question of the adequacy of the protection it provides. While there are numerous pressing policy questions which should be addressed in this hearing, we want to use our allotted time today to raise an issue of critical concern to the hundreds of thousands of nonprofessional school employees across the nation. This issue is directly related to the question of the adequacy of coverage provided by the federal-state unemployment insurance system.

As part of the Social Security rescue package which was adopted by Congress last year a provision was included requiring the state to deny unemployment benefits between academic years or terms to nonprofessional public school employees. As explained in the conference report on the Social Security Amendments of 1983, states are required to deny unemployment insurance benefits between academic years to nonprofessional employees of educational institutions and educational service agencies if the employees have "reasonable assurance" of returning to work in the next academic year. It is optional to the states to extend the between term denial to workers performing services on behalf of an educational institution or an educational service agency even though not employed by either the institution or agency. Prior to the adoption of this amendment, states were granted the option whether or not to deny unemployment benefits to such workers.

It should be noted that the automatic blanket denial requirement was added to the Social Security bill without the benefit of normal legislative deliberations. The provision was attached to the Senate version of the Social Security bill by Senator Chafee during the Finance Committee's consideration of the bill. No hearings were ever held on the issue, and there was not a comparable provision in the House Social Security bill. As Chairman Ford will recall, the Chafee amendment was one of the last provisions to be resolved by the House and Senate conferees on the 1983 Social Security Amendments.

As a result of this new federal mandate, thousands of nonprofessional employees of elementary, secondary and higher educational institutions have lost protection against unemployment between academic years or terms. While we have had only limited experience with the new law since it was made effective for weeks of unemployment beginning after April 1, 1984, we already know that the impact has been devastating for many school workers and their families. As will be indicated below, nonprofessional school employees are among the lowest paid group of workers in the nation with many working at or near the minimum wage level. The automatic blanket denial has created a major new financial hardship for thousands of nonprofessional school workers who are temporarily out of work through no fault of their

own. Many of these workers have had to apply for various forms of public assistance to make ends meet.

AFSCME represents approximately 100,000 nonprofessional public school employees across the nation. These employees generally may be placed in two major job categories: clerical and service-maintenance. The position titles of AFSCME members include custodians and general maintenance staff, cafeteria workers, bus drivers, school crossing guards, secretaries, clerical personnel, school aides, nurses and nurses aides. Women and minority group members are heavily represented in these positions.

A recent salary survey conducted by the Educational Research Service, Inc. which is set forth below as Attachment "A" clearly indicates the very low level of compensation received by nonprofessional school employees; many work at wage levels approximating the minimum wage. Typical, such workers are paid on an hourly basis during the nine month school period. Given the very low hourly rate of compensation, it cannot be reasonably maintained that it is intended to cover non-work periods.

It should come as no surprise that, with certain exceptions, most of these workers do not possess additional vocational skills by which to quality for other jobs. Furthermore, many employers refuse to hire those employees who are able to quality for other positions because they know that such employees can only work for them on a temporary basis. Accordingly, such employees are frequently unable to find other work during the period between school terms, and they thus are in every sense of the word "unemployed."

We believe there are several compelling policy reasons why the automatic blanket denial requirement imposed by the 1983 Social Security Amendments should be eliminated and, at the least, states should be restored the option whether or not to have special denial provisions pertaining to nonprofessional school employees. First, as a matter of basic equity, we do not see why nonprofessional public school employees should be singled-out for unequal treatment in the law. In our view, it is unconscionable to deny unemployment benefits between terms to the lowest paid group of public employees when those public and private employees performing work which is also characterized by regularly recurring lapses in activity are not denied such benefits under federal law. No compelling need has been demonstrated for a federal requirement singling-out this category of workers for unequal treatment.

The fact that the blanket denial requirement does not automatically apply to other groups of employees has led to anomalous results in many states whereby some employees who perform educationally related duties but do not directly work for an educational institution or service agency are eligible to receive unemployment benefits between terms while those who are employed directly by the institution and may perform work of an identical nature are not. For example, the State of Maryland, while many school crossing guards and nurses work for local school boards, large numbers are employed by other local government units, including county police and health departments. The latter group is eligible to receive unemployment benefits between terms while the former is not.

A second major policy reason why the automatic blanket denial requirement should be eliminated is that there already exist adequate mechanisms within the federal-state unemployment compensation system for denying unworthy benefit claims. All unemployment compensation applicants including nonprofessional school employees must satisfy the rigorous eligibility requirements set forth in state law for receiving such benefits. They must meet availability for work and work search requirements.

Finally, we believe that the automatic blanket denial requirement has served to undermine the basic principles for which the unemployment compensation program was established in the 1930s. As noted in a recent General Accounting Office Report, the objective of the program ". . . has been to provide temporary protection for qualified workers who lose jobs until they can either be rehired or find new employment." Unfortunately, this basic objective of the program has been seriously compromised by the automatic blanket denial requirement imposed by the Social Security Amendments of 1983. In our view, this requirement mandating unequal treatment of nonprofessional public school workers calls into question the overall institutional integrity of the program.

For the foregoing reasons, AFSCME strongly urges the Subcommittee as it considers proposals to improve the federal-state unemployment insurance system to give serious consideration to eliminating the automatic blanket denial requirement pertaining to nonprofessional school employees. H.R. 4155 was introduced last year by Congressman Conte which includes a provision that would accomplish this objective, and we strongly support this provision of Congressman Conte's legislation.

Thank you for the opportunity to present our view, on this matter of utmost concern to public school workers. We stand ready to provide any additional information or assistance on this matter which you may require.

[Attachment "A"]

TABLE 2.—MEAN OF MEAN, LOWEST AND HIGHEST HOURLY WAGE RATES PAID TEACHER AIDES, CUSTODIANS, CAFETERIA WORKERS, AND SCHOOL BUS DRIVERS IN REPORTING SCHOOL SYSTEMS, BY ENROLLMENT GROUP, 1983–84

Position	Enrollment group				
	25,000 or more	10,000 to 24,999	2,500 to 9,999	300 to 2,499	Total—All reporting systems
	Mean of mean hourly wage rate				
Teacher aides:					
Instructional	$5.80	$5.57	$5.42	$5.32	$5.48
Noninstructional	5.94	5.49	5.08	5.01	5.22
Custodians (not engineers)	6.59	6.51	6.47	6.47	6.49
Cafeteria workers (not supervisors)	5.34	5.15	5.04	4.98	5.09
School bus drivers	7.14	6.87	6.80	6.93	6.89
	Mean of lowest hourly wage rate				
Teacher aides:					
Instructional	4.85	4.70	4.77	4.85	4.78
Noninstructional	4.94	4.80	4.61	4.69	4.71
Custodians (not engineers)	5.18	5.43	5.49	5.55	5.46
Cafeteria workers (not supervisors)	4.41	4.34	4.30	4.41	4.35
School bus drivers	6.28	6.23	6.10	6.32	6.21
	Mean of highest hourly wage rate				
Teacher aides:					
Instructional	7.07	6.54	6.20	5.86	6.30
Noninstructional	7.10	6.34	5.62	5.34	5.83
Custodians (not engineers)	8.52	7.94	7.72	7.64	7.84
Cafeteria workers (not supervisors)	6.72	6.31	6.03	5.72	6.10
School bus drivers	8.10	7.70	7.53	7.64	7.68

Source: Wages and Salaries Paid Support Personnel in Public Schools, 1983–84, Educational Research Service, Inc. (1984).

Chairman FORD. Thank you very much, Mr. Hughes.

You know, I was chairman of the committee when we worked on the legislation dealing with the social security amendments. We rejected in the subcommittee amendments dealing with the nonprofessional school employees. And as one of the conferees on the conference committee—I think in your testimony you spell it out quite correctly—is that yes, it was an amendment that was tacked on on the Senate side. I do not think that there were any hearings held on that particular issue.

As one of the conferees, I was one who stated the case as a conferee and felt that it was a bad way to legislate at that time and still feel the same way about it. It is in an area that we will give some consideration to as we mark up legislation in the coming months on this particular issue. But I am familiar with the issue, and the conferees met on that particular issue, and it was one that the House did not want to recede to the Senate on, and it was probably one of the last issues, you are correct; that at the last minute

they finally were able to keep that provision within the language of the Senate version.

I will say to you again that we will consider that in this markup session.

Mr. McGlotten, you used the 65 weeks of Federal compensation. Is there any magic to the 65 weeks that you make mention of two or three times?

Mr. MCGLOTTEN. There's nothing magic about 65, Mr. Chairman.

Chairman FORD. This is Federal now. This is not in addition to the 20 some weeks of State unemployment comp, right?

Mr. MCGLOTTEN. That is correct.

Chairman FORD. We are talking about an additional permanent program and bringing about 65 weeks in unemployment compensation benefits.

Mr. MCGLOTTEN. Obviously, there is nothing magic about 65, as I said before, 72 or 52. It was our feeling that as long as we have the kind of recessions that we are having and we will probably experience another one probably around March or April—some of our learned economists have assured us that another one is on its way—we will not know how deep it will be, but clearly there are people who are really caught in the middle, particularly if they come from communities which are one industry towns, and the whole entire town basically shuts down, at least that 65 weeks, which is a little bit more than a year, can give a person the kind of shoring up that is necessary to meet the basic necessities of one's own survival and existence to at least look for a job during a particularly long period of time when there is a tremendous joblessness.

Chairman FORD. Thank you very much.

One final comment, Mr. Hughes. This is the first hearing that we have had with the subcommittee dealing with the State and Federal unemployment issue. We do plan some additional hearings. Whether they are here or field trips outside of the Washington area, I will assure you that we will schedule some witnesses before the committee to let each member of this committee and the staff really take a close look at the problem that might have occurred with the conferees on the Senate side.

We will look at this particular issue. It is not something that we want to shy away from at all. I think that we should take a good look at it and just see whether or not, with the Senate provision, whether or not we have added some bad language into the social security bill amendments.

Mr. HUGHES. We appreciate that, Mr. Chairman. I am just so grateful that you are openhearted enough and openminded enough to understand the needs of people who are basically minorities and women who have for many years not been given justice, who have to feed and clothe their children, and who certainly are taking care of what I consider to be God's most precious commodities ever to come into this world, and that is the children and future leaders of tomorrow [illegible] they serve the lunches to, that they help protect in the classro[illegible] that they stand guardian over on the schoolbuses as they go [illegible] from the various locations.

And they [illegible] help. They cannot enter for that 2-month or 2½-month perio[illegible] the private sector for jobs because nobody wants to

hire you for that short a period of time, and at the same time, you may be even competing with your own son or daughter for a job at one of those fast food places.

So we certainly hope that you would look at it, as you have been the champion for this cause, and we hope that others would see the light and come through with you.

Chairman FORD. The subcommittee will take a close look at it, Mr. Hughes. Thank you very much.

Chairman FORD. Thank you.

Mr. MCGLOTTEN. Thank you very much, Mr. Chairman.

Chairman FORD. Our next panel is the National Unemployed Network, Paul Lodico; the Greater Jeanette Unemployed Committee, Nancy Stahl; and Mr. Southern Brown of the Greater Birmingham Unemployed Committee; and Mr. Steve Paesani, the Ohio Valley Unemployed Committee.

STATEMENT OF PAUL LODICO, CO-COORDINATOR, NATIONAL UNEMPLOYED NETWORK

Mr. LODICO. On behalf of the committees of the National Unemployed Network, Mr. Chairman, I would like to thank you for the opportunity to be here today. I would like to have my written testimony inserted.

I am Paul Lodico, co-coordinator of the National Unemployed Network.

Chairman FORD. Let me say for the record that your full statement will in fact be made a part of the record. If you would like to summarize and give a briefer statement, the committee would appreciate it due to the lateness of the hour. But your full written statement will in fact be made a part of the record.

Mr. LODICO. And I would also like to submit a copy of the first Friday report into the record.

Chairman FORD. We would be happy to make that a part of the record.

Mr. LODICO. Today people have talked about us, some for us. We are here now to talk for ourselves. Many of the witnesses have amply testified and documented the facts of the inadequacies of the current unemployment compensation system. It is not fulfilling its purpose. We are also going through a structural change in our economy that has been pointed out, and we face before we have fully recovered, another recession.

House Resolution 3863, which was presented here today, are some positive steps to take care of some of the problems in the current system. I would like to point out just a couple of what we consider to be weaknesses and inadequacies on our current problems with our bill.

It has a maximum of 52 weeks of benefits. Given the kinds of problems that we are facing today in many areas of the country, that is not sufficient. This is a crisis that is much greater than in the past when the Federal Government has seen fit to have 65 weeks. If anything it should be longer today, because the need is greater, the problems are greater. Because of the number of plant shutdowns in many regions of the country, it takes longer for people to reorient and readjust and remake our lives.

Second, because of the current system's inadequacies, many of us have exhausted all of our benefits, and any legislation you should come up with should have some provisions to reach back and to help and provide coverage for those who have exhausted all of their benefits.

My last point, something you mentioned a little while ago, we think that these hearings are a good opening step in the process that was discussed here last year of revamping the entire system, and we would like to see field hearings in many cities and many communities allow us in numbers to come in our communities, allow us to show that we are not alone and we are not just 8 million, we are not just the 2 million discouraged, we are not just the 10 million who are underemployed. We have our churches, our unions, our community organizations, and many academics who backed and supported us, and the overwhelming majority of the American people would support a revamping of this system that would provide more aid for the unemployed.

[The prepared statement and report referred to follow:]

STATEMENT OF PAUL LODICO, CO-COORDINATOR, NATIONAL UNEMPLOYED NETWORK, MCKEESPORT, PA

My name is Paul Lodico. I am co-coordinator of the National Unemployed Network. We are here today to ask for a small measure of justice. We want and need decent jobs. But that is beyond the scope of this committee. What you can do is to address our need for unemployment compensation.

We are not yet out of the deepest recession since the depression of the 1930's. After 21 months of recovery, 7.5% of the labor force or over eight million men and women are still officially unemployed. Millions more are underemployed or too discouraged to even look regularly for work.

In a situation like this, the unemployment compensation should be providing more weeks of benefits than ever before and a higher proportion of unemployed should be collecting benefits. Instead, a record low of less than 30% of us are qualified for unemployment compensation. Thus, we ask that you take measures to correct this injustice.

We ask this not as a narrow special interest group seeking to get fat at the public trough but as proud men and women who are victims of economic policies beyond our control. We do it to preserve our families and our communities. We ask it because it is just.

The current economic crisis is not just another business cycle. There is also a structural change going on in our economy. Some call it the deindustrialization of America. In a business publication a General Electric Vice President said the choice before American industry is to "automate, emigrate, or evaporate." Where does that leave the working person?

This year alone, in the Pittsburgh area, thousands of food workers lost their jobs when Kroger ceased operations. Thousands of electrical workers lost their jobs due to cutbacks at Westinghouse Electric and the closings of other area plants, and the steel mills continue to cut back and close. The middle income working class is being wiped out.

Finally, we request that you hold field hearings on reforming the current system. We feel this would give you a more accurate sense of the need and the support for positive changes.

We invite you to come to our communities where we have the support of our unions, churches, community organizations and academics. Listen to our stories and find out that we are not alone.

A FIRST FRIDAY REPORT:

Whose Recovery Is It Anyway?

September 7, 1984

Issued in conjunction with:

Americans for Democratic Action
American Friends Service Committee
Center for Community Change
Children's Defense Fund
Full Employment Action Council
Lutheran Council U.S.A.
Roosevelt Centennial Youth Project
Rural Coalition
Service Employees International Union
United States Catholic Conference
United States Student Association

THE EMPLOYMENT SITUATION - AUGUST, 1984
WHOSE RECOVERY: A REALISTIC VIEW

Despite some improvements in the economic picture during the past year, substantial numbers are still worse off today than they were three years ago. Many groups and communities still bear an excessively heavy, and disproportionate, share of the burden of unemployment and loss of income. In a broader, more realistic perspective, reviewing the entire 1981-84 period, the job gains are not nearly as impressive as many claim they have been.

The latest official data for August, 1984 show a total of 8.5 million (7.5% of the labor force) still unemployed. Moreover, 5.3 million people in the labor force are listed as working part-time for economic reasons. When discouraged workers are added in, real joblessness and underemployment affect 13.2%. These numbers, however, mask rates that are double, triple or more for many groups who must bear the brunt of persistent unemployment and its accumulating effects. For many of these groups, their rates of unemployment are still above the levels of July, 1981 -- just prior to the beginning of the 1981-82 recession -- and often are still hovering in the ranges of a year or more ago during the depth of that recession.

Here are some of the specific figures for August, 1984, along with comparisons for earlier points in time.

- The unemployment rate for blacks stands at 16.0% with nearly 2 million unemployed, nearly 400,000 more than in July, 1981, when the rate was 14.9% and there were 1.633 million blacks jobless.

- Joblessness among Hispanics was 10.7% or more than 1.5 times that of white workers, with 672,000 unemployed. In July, 1981 the rate was 10.0% with 591,000 unemployed.

- With 19.740 million people employed in manufacturing, there were more than 500,000 fewer factory workers than in July, 1981 when manufacturing jobs totaled 20.279 million.

- With 5.324 million people working part time for economic reasons, there are one million more people in this category than three years ago in July, 1981, when 4.374 million were counted.

- The jobless include an additional 1.3 million discouraged workers who have given up looking for work and are not even counted among the officially unemployed.

- While young people represent nearly 18% of the unemployed, they have been receiving fewer than 3% of the jobs created since the recession bottomed out in December, 1982.

- The annualized unemployment rate in the nation's official metropolitan poverty areas actually increased from 17.2% to 18.1% between 1982 and 1983, while the unemployment rate in non-poverty areas declined from 9.1% to 8.8% during the same period.

- With an unemployment rate of 41.7% and 349,000 jobless black teens, there were nearly 25,000 more black 16-to-19 year olds unemployed than in July, 1981 when the rate was 40.0% and 324,000 were counted as officially unemployed. The black teen rate is now 2.6 times that of the white teen rate in contrast to July, 1981 when it was still far too high at 2.4 times the white rate.

- Female headed households continue to experience higher than average unemployment with a rate of 10.5% as 644,000 are without jobs. Their unemployment status is marginally better than in July, 1981, when 627,000 were jobless with an unemployment rate of 11.2%.

- The average period of unemployment was 14.1 weeks in July, 1981. In August, 1984 it was 17.3 weeks.

- In 1983 a total of 23.8 million people were unemployed sometime during the year, representing nearly 20% of the labor force. The proportion of Blacks and Hispanics who were jobless at some point during the year was 29.1% and 24.3% respectively.

- Only 30% of the unemployed were drawing unemployment insurance benefits -- close to the smallest proportion in the nearly 50 years of unemployment legislation.

A review of the record since July 1981 shows that 4 million workers were added to the unemployment rolls between then and December, 1982, the low point of the recession. The job gains

since then total 6 million -- but the number unemployed has shrun kby only 3.3 million, as the labor force expanded in the same period. In other words, unemployment as of August, 1984 was still 600,000 higher than in July, 1981. And the rate of 7.5% is higher than in every year between 1947 and 1981 except for the recession year of 1976.

Comparing the four years of Junuary 1977 through December 1980 with the last three and one half years we see an 11 million job gain in the earlier period, and a 6 million gain in the current period.

The Unemployment Problem for Female Headed Families

The number of female headed families has increased dramatically from 5.6 million in 1970, to 8.5 million in 1980, to 9.9 million in 1984 -- an increase of over 75%. Female headed families accounted for 16% of all families in the U.S. in 1984, compared to 11% in 1970. Studies have concluded that women who maintain families are more likely to be impoverished, unemployed, underemployed and underpaid than other kinds of families or individuals, despite their desire to participate in the work force.

- As of August, 1984, the official unemployment rate for female heads of households was 10.5%.
- One in six single mothers in the labor force is unemployed. More than one in four single mothers with children under age 3 is unemployed.
- More than one in three female headed families is poor. Among Blacks and Hispanics, more than one in two female headed families is poor.
- More than half the children in female headed families are poor. More than two-thirds of the Black and Hispanic children in these families are poor.

Prepared by:
Wider Opportunities for Women

The Unemployment Problem for Black Workers

Unemployment rates for Black workers continue to run about double those for White workers. The size of the gap has not been appreciably affected by decreases in the overall unemployment figures. Moreover, blacks constitute a disproportionate number of those who have given up looking for jobs; those "discouraged" workers whose numbers are not counted in the overall national average. And, blacks are two to three times as likely to be long-term jobless as are white workers.

- In August, 1984, 16.0% of black workers were unemployed. That month 1.950 million black Americans were looking for work but could not find it.

- Joblessness among black teenagers was at depression levels in August, with BLS reporting a black teen unemployment rate of 41.7%.

- Blacks, who constitute only 11% of the aged 16 to 65 populations, represent nearly 33% of the "discouraged workers", according to BLS data for the second quarter 1984.

- According to BLS, during the second quarter, 379,000 black Americans who wanted to work had given up looking for a job because they did not think they could find one.

- A BLS Monthly Labor Review report on long-term unemployment (February, 1984) found that blacks are two to three times as likely to be long-term jobless as are white. Researchers attribute the problem of long duration unemployment for blacks to their higher probability of becoming unemployed in the first place.

- Blacks are 2 to 3 times as likely to be poor as whites.

- One in two black children are poor.

Prepared by:
Full Employment Action Council

The Unemployment Problem for Hispanics

The Hispanic community is the youngest and fastest growing group in the nation. In 1980, Hispanics constituted 6.4% (14.6 million) of the total population in the U.S. The Census Bureau estimates that there were about 15.9 million Hispanics in March, 1983. Studies estimate that the Hispanic population might increase to 47 million by the year 2020 -- becoming the second largest minority group in the nation. The youthfulness of this population group presents serious policy implications in the areas of education and employment. Hispanics suffer from the lowest educational attainment rate of any group in the nation and also have high rates of underemployment and unemployment. Policy makers will have to ensure that the educational system and the labor market meet the needs of the Hispanic community.

- In August, 1984, the official Hispanic unemployment rate was 10.7%. That month 672,000 Hispanic workers were looking for jobs but could not find them.
- The Hispanic youth unemployment rate for the second quarter 1984 was officially 24.2%.
- Hispanics are projected to account for at least 8% of the labor force by 1995.
- Hispanics account for 6% of the total population, but in 1982, Hispanics made up 12.5% of the country's poor.
- Regional areas of high concentration of Hispanics witnessed severe unemployment rates. In El Paso, Texas, the 1983 annual unemployment rate was 12.3%. In Starr County, located in the Rio Grande Valley of Texas and the poorest county in the U.S., the 1983 annual unemployment rate was 40.5%.
- Hispanic women are the lowest paid workers in the labor force -- on average Hispanic women earn 51.4 cents to every dollar earned by White men.
- Similarly on average, Hispanic men earn only 71.2 cents to every dollar by White males.

Prepared by: The National Council of La Raza

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The Youth Employment Situation
AUGUST, 1984

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- The overall number of unemployed Americans remained at more than 8.5 million; nearly 39% of them are under 25. The unemployment rate for 16-19 year olds rose from 18.3% to 18.4%.
- The number of employed teenagers declined from last month by more than 250,000.
- The number of employed white teens, dropped by nearly 300,000 since last month, continuing the decline that began in March, 1984.
- The unemployment rate of black teenagers dropped slightly from 42.4% to 41.7%, while the white teen rate rose slightly from 15.3% to 15.9%, continuing the substantial gap between the two groups.
- Only 22.7% of black and 35.9% of Hispanic teenagers are employed, compared to 46.4% of white teenagers.
- Nearly one and a half million 16-24 year olds who are currently looking for work have never worked before.
- On average during 1983, 1.55 million teens classified as outside of the labor force expressed a desire to be employed on a part-time or full-time basis.
- The teenage population declined by 8.3% between 1979 and 1983. The number of employed teens, however, fell by 21.5%.
- Less than 3% of the more than 6 million jobs created since November, 1982, have gone to teenagers, who represent nearly 17% of the unemployed.
- The 1983 annualized labor force participation rates of black and Puerto Rican teenagers were the lowest in history, 36.4% and 27.1% compared to 56.9% for whites.
- Fewer than 10 of every 100 black teenagers have full time jobs.
- The unemployment rate of 1983 black high school graduates (37.5%) substantially exceeds that of white high school dropouts (23.5%).
- Only 36.4% of the black graduating seniors in 1982 entered colleges, a sustantial decline from 43% in 1980 and 1981.
- Smaller employers, who create the vast majority of the jobs in the private sector, are least able to pay for the training of new workers.
- The overwhelming majority of new workers in the future will be women, blacks and Hispanics.

A Project of The Eleanor Roosevelt Institute, Hyde Park, New York

Emergency Legislation Is Needed To Create Jobs For The Unemployed

With more than 15 million men and women unemployed, working part-time or entirely out of the job market because of discouragement, there is a terrible urgency for Congress to enact legislation that will create jobs, equip individuals with marketable skills, and assist jobless workers. There are several proposed programs that could help in this effort.

COMMUNITY RENEWAL EMPLOYMENT ACT

A meaningful jobs program is vitally needed, both to provide work for those who would remain unemployed under even the most optimistic of the Administration's economic predictions and to accomplish tasks essential to communities.

The Community Renewal Employment Act, H.R. 1036, will provide important assistance to those citizens hit hardest by the recession. The bill is targeted to long-term jobless workers in areas of high unemployment. To ensure that the work created is productive, the bill specifies activities such as repair of public facilities, conservation of public lands, and provision of day care, health and other community services. Fully 20 percent of the funds are set aside for repair work in education facilities, particularly to detect and remove asbestos in schools. To ensure that monies go out in a timely fashion, the bill permits no more than 105 days between appropriating funds and filling jobs. Moreover, to guard against abuse or substitution, H.R. 1036 requires the Employment Service to certify participants and triggers an automatic investigation where the regular workforce declines more than five percent. Finally, to make H.R. 1036 a jobs bill in fact as well as in name, the bill stipulates that at least 75 percent of the funds go for wages.

H.R. 1036 makes economic sense. Initial outlays will begin to be offset immediately by reductions in federal payments to the jobless, especially food stamps and welfare, to which UI exhaustees increasingly must turn. Moreover, starting in 1984 and extending through 1985, federal revenues will increase through the taxes paid by these productively employed workers.

YOUTH INCENTIVE EMPLOYMENT ACT

The Hawkins-Kennedy Youth Incentive Employment Act (H.R. 5017, S. 2397) would authorize $2 billion to provide full-time employment during the summer months and part-time employment during the school year to economically disadvantaged youth. These youth must agree to maintain performance standards at the worksite and agree to remain in or return to school. H.R. 5017 is modeled after a 30-month demonstration project mandated by Congress in 1977. Researchers have documented positive results, including dramatic increases in the labor force participation rates of black teenagers. Those involved in employing youths also have praised the pilot program approach. H.R. 5017 would provide funds to service delivery areas under the Job Training Partnership Act (JTPA). Eligible youth would work in public agencies, private non-profit organizations, and private for-profit employers. Approximately one million low-income teenagers would be served under the program.

The Administration-backed subminimum wage plan is misguided economic policy and bad social policy. In contrast to H.R. 5017, the proposal to pay teenagers a subminimum wage ignores the factors that are responsible for the high rate of unemployment among

teenagers, penalizes disadvantaged persons who struggle to make ends meet even at the current minimum wage, and sets a dangerous precedent by violating the principle of equal pay for equal work. Young people need adequate employment and training and the opportunity to contribute to society. They neither desire nor deserve lower wages for the work they do.

AMERICAN CONSERVATION CORPS

Legislation to create an American Conservation Corps (ACC) to provide about 100,000 jobs for unemployed young people in conservation and related projects has passed the House of Representatives in 1982 and again in 1983. A more limited youth conservation bill is pending in the Senate. Two other youth jobs programs — the Youth Conservation Corps established in 1970 and the Youth Adult Conservation Corps created in 1977 — were terminated by the Reagan Administration. Proponents of the youth conservation approach, such as the Youth Policy Institute (YPI), argue that the programs are cost-effective. YPI notes that in 1979 there was a $1.10 return for each dollar spent on the youth conservation jobs program.

In the absence of authorization for a federal program, several state and local governments have established their own youth conservation jobs programs. If ACC is enacted, eligible projects would include forest and soil conservation, urban revitalization, historic preservation, road and trail development, erosion control, and production of renewable energy resources.

For further information, contact: Full Employment Action Council, 815 16th Street NW, Washington, DC 20006; 202-393-7415

Plant Closing Legislation

The Issue

- In 1982, at least 600 entire plants and production facilities were permanently shut down, resulting in over 200,000 lost jobs.
- In the last three years, some three million manufacturing jobs have been lost, many to plant closings.
- Industries particularly hard hit by plant closings include steel, autos, glass, rubber, clothing and textiles, paper, metal fabrication, machine tools, and electronics, among others.
- Less than 20% of plant closings involve bankruptcy or financial insolvency, and about one-third of plants closed are less than six years old.
- Most plant closings occur with little or no advance notice or assistance to affected workers and communities.

National Employment Priorities Act

- Requires companies to give workers and communities up to one year advance notice of an intended plant closing.
- Directs the Secretary of Labor to undertake a comprehensive investigation of an intended plant closing.
- Provides assistance to affected workers through job training, job placement, job search, job relocation and education expenses.
- Provides assistance to distressed businesses through loans, loan guarantees, interest subsidies, technical aid and targeted federal procurement.
- Provides assistance to affected local governments through grants, loans, loan guarantees and other economic development assistance, and requires companies to pay up to one year in local taxes.
- Requires companies that close a plant to provide affected workers with extended health care and other benefits, job transfer rights, and up to 52 weeks or $25,000 in severance pay.

Action Needed

- Members of the House should be asked to support and cosponsor the National Employment Priorities Act (H.R. 2847).

Distributed by: Full Employment Action Council, 815 16th Street NW, Washington, D.C. 20006; 202-393-7415.

Chairman FORD. Let me say that it is the chairman's intention to make sure that we carry the subcommittee into the cities and areas where we can hear from more people like you. This hearing today is here in Washington, but it is the intent of the Chair to make sure that we would have those field trips as a part of this investigative part to examine exactly what the needs are when we respond to the unemployment problem.

Mr. LODICO. Thank you very much. Anything we can do to help, we would be very glad to.

Chairman FORD. Ms. Stahl.

STATEMENT OF NANCY J. STAHL, COORDINATOR, GREATER JEANETTE (PA) UNEMPLOYED COMMITTEE

Ms. STAHL. I am here today representing the Greater Jeanette Unemployed Committee. We are a small industrial community about 28 miles from Pittsburgh. Once a thriving town, it is now an area of empty factories.

Our committee was organized because today's system does not work for us. We therefore must become a voice in shaping a system that will meet our needs. We need better unemployment compensation coverage and less complicated qualification requirements.

Two years ago Jeanette Glass closed its doors, leaving about 1,000 people without jobs. Like all the rest, I watched my means of supporting my children disappear. I joined the millions of people faced with making ends meet. I watched my children's few simple pleasures in life start disappearing. The job of juggling money to keep up with my bills became even greater until it reached the point where we always had more money to pay out than we had coming in.

At this point I could no longer sit back and passively allow the system to destroy everything I had worked for for myself and my family. I knew it was time to start fighting back.

An unemployed person must have at least 16 weeks employment over two quarters to qualify for compensation. This week I talked with a gentleman from our area who was laid off after 15 weeks. He had no compensation and must wait another month before returning to the employment office to try again for some means of supporting his wife and family.

This gentleman will not be recalled to his former place of employment in the foreseeable future, so he has the additional problem of looking elsewhere for a job that just is not there to be found.

We are constantly hearing that unemployment is decreasing, but many factories in our area, including my own, have permanently closed. Others are in the process of phasing out all operations, ready to close their doors. One factory will be going from a work force of approximately 425 to 14 or 15 by the end of the year.

We, the unemployed, who have been out there for some time know that even extended benefits are not the answer. This is only a stopgap answer to a serious problem. What the unemployed need is a means of supporting themselves and their families not for 26 or even 39 weeks. We need to be able to collect benefits until we have found employment. We are not asking for handouts. What we are asking for is to be able to meet our families' basic needs during

a time when there are no jobs out there that can meet the cost of living in our areas.

In the Westmoreland County area a caseworker's load for a month has almost tripled. This is because of new welfare applicants. Then there are the many who have fallen through all of the cracks in the system, those who have exhausted their unemployment compensation benefits and do not show up on any statistic sheet because they have no job, no compensation and no welfare.

Most of these people do not ask to be out there. We must concern ourselves with these forgotten people. Provisions need to be made for them. Unemployment compensation guidelines need to be revised. A more comprehensive and feasible plan for providing for the needs of the unemployed is necessary. [Applause.]

Chairman FORD. The Chair would like to say that I can certainly appreciate the applause that was given to the witnesses, but we are in an official subcommittee hearing, and I would ask that the audience refrain from any outburst of applause.

Mr. Southern Brown.

STATEMENT OF SOUTHERN BROWN, GREATER BIRMINGHAM UNEMPLOYED COMMITTEE

Mr. BROWN. I am Southern Brown from Birmingham, AL, and on behalf of the members of our Unemployed Committee I am grateful for the opportunity to speak to you today on the issue of unemployment compensation.

There has been no recovery for the tens of thousands of people in Birmingham who are still out of work. Unemployment continues to be the most serious problem facing our city. The official unemployment rate in Alabama is 11.8 percent. We believe the real unemployment rate is 15.8 percent.

In Birmingham the official rate is 13 percent, but the real unemployment rate is closer to 17 percent. That means that more than 1 in every 6 people is still out of work. Furthermore, plant closings and layoffs continue at an alarming pace. United States Steel's brandnew pipe mill recently laid off several hundred workers. Hospitals have laid off thousands of people in the last few months. Plant closings and layoffs are occurring not only in the basic industries but also in the service and retail industries which are widely thought to be our new so-called growth industries.

Let us be very clear and let there be no mistake about it. We want to work. We want jobs, not handouts. There simply are not enough jobs for all those who want to work. But until there are decent jobs for us, we must have some way to live and support our families.

In Alabama, 75 percent of the unemployed receive no benefits. In other words, only 1 in every 4 unemployed people are getting any employment compensation. This fact should dispel once and for all the notion that the unemployed choose not to work because it is just as easy to draw benefits. Clearly, this is not the reason for the high unemployments in the Birmingham area. Three-fourths of us have run out of benefits and still cannot find jobs to support our families.

In Alabama, we call unemployment compensation pennies, and with very good reason. Our unemployment compensation is among the lowest in the country, both in dollar amounts and length of coverage. The maximum a person can draw is $120 a week for 26 weeks, and we are here to say to you do not believe in the myth of recovery; do not ignore the dimensions of the unemployment crisis. Look beyond the official numbers to see the true story.

Many of us have not recovered, and something must be done. And on behalf of the unemployed in Birmingham, we urge our elected representatives to put jobs, unemployment compensation and relief for the unemployed at the top of their political agenda. Remember, we want jobs and we want simple justice for the unemployed.

[The prepared statement follows:]

STATEMENT OF SOUTHERN BROWN, MEMBER, GREATER BIRMINGHAM UNEMPLOYED COMMITTEE

I am Southern Brown from Birmingham, Alabama. I have been laid-off from U.S. Steel's Ensley Works since June of 1980. I am a member of the Greater Birmingham Unemployed Committee. On the behalf of the members of our unemployed committee, I am greatful for the opportunity to speak to you today on the issue of unemployment compensation.

There has been no recovery for the tens of thousands of people in Birmingham who are still out of work. Unemployment continues to be the most serious problem facing our city. The official unemployment rate in Alabama 11.8%; we believe the real unemployment rate is 15.8%. In Birmingham, the official rate is 13%; the real unemployment rate is 17%. That means that more than one in every six people is still out of work! Furthermore, plant closings and layoffs continue at an alarming pace— U.S. Steel's brand-new pipe mill recently laid off several hundred workers; hospitals have laid off thousands of people in the last few months. Plant closings and layoffs are occuring not only in the basic industries, but also in the service and retail industries which are widely thought to be our new so-called "growth" industries.

Let us be very clear and let there be no mistake about it: we want to work! We want jobs, not handouts. There simply are not enough jobs for all those who want to work. But until there are decent jobs for us, we must have some way to live and support our families.

In Alabama, 75% of the unemployed receive no benefits! In other words, only one in every four unemployed people are getting any unemployment compensation. This fact should dispel, once and for all, the notion that the unemployed choose not to work because it is just as easy to draw benefits. Clearly this is not the reason for the high unemployment in Birmingham—three-forths of us have run out of benefits, and still we cannot find jobs to support our families.

In Alabama, we call unemployment compensation "pennies," and with very good reason: our unemployment compensation is among the lowest in the country, both in dollar amount and length of coverage. The maximum amount a person can draw is $120/week for 26 weeks.

We are here to say to you: do not believe in the myth of recovery. Do not ignore the dimensions of the unemployment crisis. Look beyond the official numbers to see the true story. Many of us have not "recovered," and something must be done.

We urge you to take action to pass new unemployment compensation legislation which provides for:

1. Coverage for all the unemployed for the duration of their unemployment;
2. A "reach-back" provision to include those who have already run out of their unemployment benefits;
3. Uniformity in benefit levels, length of coverage, and regulations among all states; and
4. A more accurate method of calculation of the insured unemployment rate, so that our depressed states are eligible for the federal Extended Benefits program. Even when Alabama's unemployment rate was among the highest in the country, we were not eligible for Extended Benefits because of the formula for calculating the insured unemployment rate.

On behalf of the unemployed in Birmingham, we urge our elected representatives to put jobs, unemployment compensation, and relief for the unemployed at the top of their political agenda. Remember, we want jobs, and we want simple justice for the unemployed.

Chairman FORD. Thank you very much, Mr. Brown.

Our next witness is Steve Paesani.

STATEMENT OF STEPHEN PAESANI, OHIO VALLEY UNEMPLOYED COMMITTEE

Mr. PAESANI. Thank you, Mr. Chairman.

I would like to thank the subcommittee for the opportunity to present this testimony.

My name is Steve Paesani, and I am with the Ohio Valley Unemployed Committee, a member affiliate of the National Unemployed Network. The written testimony I would like to submit, and I would like to make a few comments in lieu of reading the entire testimony.

Chairman FORD. You may proceed.

Mr. PAESANI. I used to work at a small steel fabricating plant called William Machine Products in Wheeling, WV. We had a profitable plant that had been in business in the Wheeling area since 1916. We were bought out by a large multinational interest, and 6 years after we were bought out we were shut down. However, in all the quarters that that company owned our plant they were profitable. We produced a product which was in demand, and it was still useful and is still being made but in other locations.

We found out a few interesting things because we never could really understand why they wanted to close us down since we were apparently profitable and had a stable market. First of all, there was an extremely large tax writeoff the company enjoyed for closing the plant down. The company also was able to acquire $2½ million in the surplus of the employees' pension fund. So we as employees of William Machine began to perceive a policy of this Government which subsidized the wastefulness and the dismantling of plants that we were working productively for.

Much of the machinery that was in our plant was shipped to California. Much of it was very sensitive and did not weather the long haul across the continent. Much of that machinery is idle, not because it cannot be used but because it cannot be operated because the skilled work force that operated it for decades has been removed from it.

The company has tried to recruit some of the maintenance workers at this plant to try to get this machinery operable, but apparently it has not been able to do so yet, and none of the foreman that have transferred over there have been able to succeed either.

So what I at least see is a policy whereby the U.S. Government is providing tax subsidies to corporations to close down plants; that it is showing them the way to rob employee pension funds for their own purpose; and it is at the same time subsidizing the squandering of capital resources at the loss of jobs for people like myself.

We do have an unemployment compensation system, and that is what we are here to comment on. I did want to raise what I consider to be the minimum that I would like to see come out of the new unemployment compensation system after March of next year.

Short of an overhaul of the system, which I do concur is necessary, I think there are four key points that should be remembered or in new legislation:

No. 1, the period of benefits needs to be extended.

No. 2, the eligibility requirements need to be relaxed and broadened—or lessened, excuse me.

Third, the triggering mechanisms, if trigger mechanisms are to be applied for the EB and FSC programs, should be based upon the TUR rather than the IUR.

And, fourth, there should be a tier of benefits which would trigger on by regional county or SMSA level, whereas a county or SMSA within a State which experiences a much higher level of unemployment could trigger on to a separate tier benefit.

Chairman FORD. That is the substate triggers we have been talking about, I guess.

Mr. PAESANI. Exactly.

In closing, West Virginia currently enjoys a 13.7-percent official unemployment rate, the lowest in more than 2 years. In some counties that rate exceeds 60 percent. Obviously, the solution to this problem is jobs, but until the leaders of our political and economic system can provide those jobs, they had better provide at least the same level of generosity and compassion to the victims of economic dislocation as they do to the corporate waste and greed which is responsible for so much of our suffering as in the case of myself and my 700 fellow employees at Williams Machine.

Thank you.

[The prepared statement follows:]

STATEMENT OF STEPHEN PAESANI, MEMBER, OHIO VALLEY UNEMPLOYED COMMITTEE

Ladies and gentlemen, distinguished members of Congress, my name is Steve Paesani. I'm from Wheeling, WV and I've been an unemployed Steelworker since January 1982.

They say that older folks are finding a hard time getting a job, but where I live everyone; men and women, blacks and whites, old and young, are having a tough time finding a decent job, i.e. a job that a family can live on with dignity. Those jobs disappeared during the recession and the recovery hasn't returned them.

My job is one of the two million jobs that did not return. Our plant shut-down in September of last year not because it was unprofitable or because there was no demand for our products, but because our company could make more money by closing our plant, stealing the surplus in the employees pension fund, and cashing in the tax credits than they could by running the plant.

But our economic system, which encourages companies to steal from its employees and rewards the squandering of capital resources, does not offer adequate protection to the innocent victims of this corrupt and wasteful system. For the past year-and-a-half I have been organizing unemployed people like myself. It has been my way of fighting back.

But today we are here to discuss the unemployment insurance system. Knowing how generously our government rewards corporate theft and waste and knowing how western European countries provide generous assistance to unemployed workers and victims of plant closings one would think unemployed people in this country could receive unemployment insurance until they find another job. Yet we are told that, given current political realities, this is not possible. Instead we have a system that covers fewer people and for a shorter period of time than any of the industrialized nations of western Europe. To rectify this disgraceful situation we in the Ohio Valley Unemployed Committee in Wheeling have several suggestions which we think are obtainable given current political realities.

Currently fewer than 30% of this country's unemployed workers receive unemployment insurance. To correct this, three courses of action need to be taken. First, eligibility requirements need to be broadened and relaxed. Second, the number of weeks which recipients can collect needs to be extended considerably. And third, the

trigger mechanisms for EB and FSC should be based on the total unemployment rate for the state rather than the insured unemployment rate.

And finally, since a county or a region within a state may have exceptionally high levels of unemployment, but be penalized by a lower state level from receiving the appropriate duration of benefits, that there should be a separate trigger mechanism for counties and SMSAs so that regions which are suffering from higher levels of unemployment can be treated appropriately.

West Virginia currently enjoys a 13.7% unemployment rate, the lowest in more than two years. In some counties that rate exceeds 60%. Obviously the solution to this problem is jobs. But until the leaders of our political and economic system can provide those jobs they had better provide at least the same level of generosity and compassion to the victims of economic dislocation as they do to the corporate waste and greed, which is responsible for so much of our suffering.

Chairman FORD. I would like to thank the panel, and by no means would the chairman of this committee say to the group and the audience that we want to keep you quiet. It is just that we are conducting these hearings today and the chairman of this committee and members of this committee and this Congress are very, very serious about responding to some of the needs that these witnesses and other witnesses have already said today before this committee. And as chairman of this committee, I can assure you that I am committed in moving forward on some legislation that will strengthen the State and Federal unemployment program itself.

And with that, I would to thank the panel for coming. Thank you very much.

The committee will stand in recess for 10 minutes.

[Recess.]

Chairman FORD. The subcommittee will come to order. The next panel will be Mr. Tom Larkin, Steel Valley Unemployed Council; Clarence Puller, Philadelphia Unemployment Project; Randy Messinger, Corry Area Unemployed Council; and Keith Brooks from the United Committee of Unemployed People.

If there are some substitutes for the names that we have called, would you please identify yourself or yourselves for the record, please. And we will start with the gentlelady to my left.

Ms. JACKSON. My name is Mildred Jackson, and I am from the Philadelphia Unemployment Project. I am taking Clarence Puller's place.

Chairman FORD. And your name is Jackson?

Ms. JACKSON. Mildred Jackson.

Chairman FORD. Are there any other substitutes?

Mr. GEE. Yes. I am Charles Gee with the Erie Unemployed Council.

Chairman FORD. And you are substituting for whom?

And your name is?

Mr. LARKIN. Anthony Larkin.

Chairman FORD. Mr. Larkin, we will recognize you first, since you are the first name on the witness list, and then we will go in that order.

STATEMENT OF ANTHONY LARKIN, STEEL VALLEY UNEMPLOYED COUNCIL

Mr. LARKIN. Ladies and gentlemen, distinguished members of Congress, my name is Anthony Larkin. I am an unemployed steelworker from Youngstown, OH. It saddens my heart to see so many men and women such as myself unemployed, with no hope of get-

ting a decent job. I began working at Wean United Engineering in 1970 and have worked there all of my adult life. In those 13 years, I married, had two children, Mindy 13 and Shelly 11, bought a home, and thought I had a piece of the American dream. That dream has become a nightmare for me and thousands of others like me in Youngstown who worked hard, earned some money, bought some property, and now are losing it all.

Several of these people have come with me from Youngstown. One of them, Jesus Tirodo, worked for Republic Steel for 33 years. Now he finds himself without a job, too young to retire and too old to start over. People like Jesus are not counted among the officially unemployed. He is one of millions of once-productive Americans who have been swept aside by an economy that no longer needs them. But this throw-away economy which discards human beings like so much garbage is also throwing away whole communities.

On September 19, 1977, known in Youngstown as Black Monday, the entire economic base of a community which had been an important part of America's industrial economy for over a century was wiped off the face of the map. Five years later, we still have double-digit unemployment, but this only tells a small part of the story.

It doesn't tell the story of Delores Fisher who is here in this room. Delores lives on a $90-a-month welfare check and a monthly food stamp allotment. She lost her job after 20 years, 3 years ago, and hasn't found work since, but the government doesn't count her as being unemployed. Professors at Youngstown State University conducted a survey which shows a 16.2-percent unemployment rate in Youngstown, but the 84 percent who have jobs aren't doing so well themselves.

Underemployment is the dead-end solution for millions who have lost their piece of the American dream. Even though 20 or 30 hours at a minimum wage doesn't pay the bills, it doesn't count as unemployment.

There are over 20 million unemployed and underemployed people living in this country. Very few of these people will find decent jobs in the coming months and years. Unemployment insurance is the only protection the system offers. Yet, it is too short and protects too few. If you won't give us a decent job, then at least give us some protection from our throw-away society.

As a member of the newly formed Steel Valley Unemployed Council, I can assure you that we will do our part to defend and to protect the rights of the unemployed Americans. I hope that the Congress of the United States will do its part, too.

Chairman FORD. Thank you very much.

At this time, I would like to recognize one of my colleagues, Congressman Ridge, for the purpose of acknowledging his constituents here from his congressional district. We are very proud to have you join us, Congressman, on the subcommitee and we look forward to working with you on this legislation that we will be looking at taking a closer look at in the next 2 or 3 months, and hopefully we will go into some markup session to draft legislation and report it out of this committee.

And we will be counting on your able assistance in helping us do that.

STATEMENT OF HON. THOMAS J. RIDGE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. RIDGE. Thank you very much, Mr. Chairman. It is a pleasure for me to introduce to you Mr. Charles Gee, a very active member of the Erie County Unemployment Council. Mr. Gee is representative actually of several groups that have been organized during the past year and a half in northwestern Pennsylvania. He is a former employee of the largest employer in our community, General Electric. He was with a group of other employed workers representing the community earlier today when we talked about the difficulties we have in a congressional district where the state of the Union is not the state of the district, and yet where the state of the state and the triggering mechanisms that are used, that involve strictly State statistics, mean that congressional districts that have higher unemployment than the State means that certain Federal programs are eliminated because the congressional district's unemployment level is just even higher than that of the State figures.

And we talked a little bit about the number of people who are no longer counted in those statistics as unemployed, even if they are not getting their unemployment checks, but they are not counted for purposes of unemployment benefits, either State or Federal.

So it is a pleasure for me, and I thank you for the courtesy and introduce to you my constituent who is representative of thousands of people in the district, Mr. Charles Gee.

STATEMENT OF CHARLES GEE, ERIE COUNTY UNEMPLOYED COUNCIL

Mr. GEE. I do thank the subcommittee for the opportunity to present my testimony. I am Charles Gee, one of the statistics from unemployment that you have been reading about. A former General Electric Co. employee, I was laid off from my job on February 8, 1982. It is very disappointing to know that after 5 years, all of a sudden you become unemployed.

After a period of time, I began neglecting one bill to pay the other or split payments, or pay half of a bill, sometime paying none on the bill. Over a period of 2 years and 5 months, my bills have accumulated to the amount of $7,000 which is what I need at this moment to update my payments. School clothing and shoes were limited this year. Food is even limited in our home. There are times when there is no food for the family. Maybe it seems hard to believe what an unemployed person faces through unemployment. My benefits have ended, as has so many other needs of life. We are asking that the FSC Program be renewed, and that our officials support a bill that would renew and extend the benefits for the unemployed people. Due to the large percentage of unemployment in our area and surrounding areas, the unemployment benefits are most needed now as never before.

Just the thought of losing a job is very frightening and it is also more frightening to face the possibilities of exhausting your unemployed benefits. Unemployed people cannot afford to run out of benefits for the reason that the persons have not just run out of unemployed benefits, but he also runs out of food, he runs out of clothing for the family, he runs behind in rent or mortgage on the

home, he runs behind in electric, he runs behind in gas. He also loses his automobile. Many families lose one another, for husbands and wives separate. Many go far beyond separating. Some even go to the extent of committing suicide.

As you can see, we are not asking for something that is not needed. Unemployed benefits are desperately needed. Many people have not just been laid off work, but have lost their jobs forever. Maybe our officials cannot give us jobs, but you can give us a reasonable amount of benefits until an unemployed person can at least find a job.

I am asking our Federal elected officials to please focus the necessary attention on the needs of our American citizens to support the bill that would extend unemployment benefits to the people who have worked hard to build this country, the citizens who have labored for many, many years on jobs, restore their confidence, give hope to the discouraged Americans.

A chain is only as strong as its weakest link. Give back our jobs and confidence.

Thank you.

Chairman FORD. Thank you.

Ms. Jackson.

STATEMENT OF MILDRED JACKSON, PHILADELPHIA UNEMPLOYMENT PROJECT

Ms. JACKSON. Yes. My name is Mildred Jackson. I am a member of the Philadelphia Unemployment Project. I am 40 years old and I have worked all my life. I was laid off in June 1983, and I received 30 weeks of regular unemployment compensation and a 14-week Federal extension. My unemployment benefits were only $118 a week. It wasn't enough to support me and my two children, but there was some security in knowing that I was getting something to live off. It was a far cry from what I used to make in the factory as a pieceworker.

While I am unemployed, I am constantly looking for work. In fact, I budget part of my check for transportation to job hunt. Living off $118 a week meant sacrificing and doing without a lot of things, but as I said, it was security. The 44 weeks of benefits went by so fast. I remain to this day unemployed, except for a 2-month job I held this summer as a counselor in a day camp. I have been working since I was 16 years old, but now I am either too old or underqualified or overqualified for the jobs that are available.

I am at the place now that I thought me or my children would never be. We would now have to count on welfare and food stamps to survive. I took great pride in being a working black female, through hard work and persistence becoming a solid middle class homeowner in a stable and sound neighborhood, and now I face becoming homeless, separated from my children, and the shutoff of my utilities.

Congressmen, we are hard pressed to believe you or our President when you say that we are in the theory of recovery. We have come a long ways to tell you that there is no such recovery, that millions of us are still unemployed, and many have given up hope.

But as long as I have two children to support, I cannot give up the fight, nor can I give up hope.

We look to you to help us. We are counting on you to give us what we have not gotten—decency and simple justice. It seems crazy to ask you not to dissolve the extension. If any of you have done any campaigning in your district, you would know that the people need and want jobs. If you are unwilling or unable to push for a strong job legislation, for God's sakes don't cut off our checks. We are workers, we are proud, and we are counting on you for due justice.

Chairman FORD. Thank you very much to all three of the witnesses on the panel.

Ms. Jackson, let me just say for the record I have not advocated at any such time that I think that the recovery has responded to the unemployment problem. I certainly would not want to be placed in the same category with the administration on that. I am on the opposite side of the administration. I do know and realize that there are 8½ million people in this country who are, in fact, unemployed; people who are seeking jobs. Many have created a new class, the new poor. Many have been shifted below the poverty level. Many have gone on the public welfare rolls and they do not want to be on the public welfare rolls, and I think that you have said it before this committee and I understand that.

I think there is a group of people within this country and especially from the corporate community and in this White House of ours who are convinced that we ought to believe what President Reagan is saying, that the recovery—America is back. I have said earlier, back for whom, other than the corporate community and those who have enjoyed all of the tax breaks in this country, and denied those who have been forced out of the work force an opportunity to be gainfully employed once again.

I firmly believe that and will say to you that I am not a part of that crowd at the White House in talking about this recovery.

Ms. JACKSON. Thank you very much.

Chairman FORD. I would like to thank the panel very much at this time.

I would like to now call up the chamber of commerce. I guess they are going to come and jump on me on the other side now, but the Chamber of Commerce of the United States, Mr. Don Whitely, a member of the council on unemployment compensation, along with Mr. Samuel Roth, the associate manager of employer relations; and also Mr. Edward H. Kaye, Jr., chairman of the unemployment compensation subcommittee, employees benefit and reltions committee; accompanied by Mr. William R. Brown, who is president.

I would like to say that you all have been waiting very patiently all day, and we are very appreciative of that from the committee's perspective. There happens to be a little problem here. The two lights that you see on the clock on the wall are lights indicating that we have suspension votes on the House floor. I have about 4 minutes before the first recorded 15-minute vote, and there are two other votes in addition to the one that is on the House floor in which they have limited the time, I understand, to 5 minutes on each of the other votes.

Well, I understand there is just only one vote following this vote, and I would like to recess for about 7 minutes. It will take that long to go over and vote and come back, and I really appreciate the chamber of commerce witnesses waiting so long. I will be right back.

The committee will stand in recess for 7 minutes.

[Recess.]

Chairman FORD. The subcommittee will come to order, and the Chair would like to again express his appreciation to the witnesses who are here to testify for being so kind and considerate to wait. We have had votes all day back and forth on the House floor. I guess you can tell that by the bells going off.

But at this time, the Chair would recognize Mr. Edward H. Kay, Jr., first.

STATEMENT OF EDWARD H. KAY, JR., CHAIRMAN, UNEMPLOYMENT COMPENSATION SUBCOMMITTEE, EMPLOYEE BENEFITS AND RELATIONS COMMITTEE, COUNCIL OF STATE CHAMBERS OF COMMERCE, ACCOMPANIED BY WILLIAM R. BROWN, PRESIDENT

Mr. KAY. My name is Edward H. Kay, Jr., and I appear today as chairman of the Unemployment Compensation Committee of the Employee Benefits and Relations Committee of the Council of State Chambers of Commerce. Accompanying me is William R. Brown, president of the Council of State Chambers.

I would like to deviate from our written testimony and just kind of talk impromptu for a few minutes on some of the comments we have heard today.

Chairman FORD. And if you would like, your written statement will be made a part of the record.

Mr. KAY. Yes, please.

The testimony you have heard today has certainly highlighted some of the problems that we face in our country. Some of these problems are tied to the structural changes that have taken place, structural changes that are within specific areas where there is very high unemployment rate within that area because of these changes.

One of the other problems we had addressed was the situation where the plant closed and moved to another State. This is a subject that I would like to touch on for just 1 minute. To some extent, that type of a problem is not one that is necessarily tied into an unemployment insurance problem as much as it is tied into a particular State's philosophy in terms of its attractiveness to the business community in terms of retaining business. To the extent that the company moved out of that State because of local conditions, that is a problem that should be addressed by the State itself, the State Governor, the State legislators, and other interested parties that are interested in retaining employment within that State. If you would like a little further elaboration, Mr. Brown could specifically talk about West Virginia with which he is quite familiar.

Some of these other problems of structural unemployment are caused by economic conditions above and beyond the control of the

State. As Governor Thompson said, some of the national problems besides the budget are having impacts within his State.

These types of structural problems should be pinpointed, that is tied back into those particular problems. I am certain that the people that talk today in terms of, we want more unemployment benefits and longer unemployment benefits are taking that position because that is a vehicle to meet an immediate need that they have. If, on the other hand, there were another alternative out there for them, some other method of meeting their needs, the needs of finding employment and the needs of being trained for better employment, for full employment, or for part-time employment, that if there were some other process that could meet these long-term objects or problems that they have, they would be more than willing to accept these rather than a modification of the unemployment system that would be strictly a temporary-type of a stopgap measure for them.

Getting back to the unemployment system itself, our unemployment insurance program, as you know and other people know, our unemployment program is designed for a very specific purpose. It is designed to replace the loss of wages for a temporary period of unemployment for the person who is unemployed through no fault of his own. We think it should be retained as this. That this is the objective of the program and this is how we should keep our unemployment program.

Right now, 26 weeks are paid in all States. That is 6 months. For a person whose unemployment goes beyond 6 months, in good economic times which we are experiencing right now, we think this is a problem not of the fact that he was unemployed from that employer and therefore a burden back to that employer, but that his unemployment is now a social type of problem that should be addressed through some other vehicle.

I would like to now turn over to page 4 of my testimony and talk about the Extended Unemployment Compensation Act, H.R. 3863. We are opposed to this legislation as it would result in unwanted liberalization of a benefit system and place an additional financial burden on the States at a time when they are attempting to recover from previous devastating recessions.

All States allow claimants to qualify for 26 weeks of benefits. We believe this is the proper length of time during nonrecession periods and should be adequate for today's economy. However, this basic length duration is currently increased by 8 to 14 weeks under the Federal Supplemental Compensation Program. This program is not needed today and should be terminated, as we already have in place a second program designed to meet the problems which would exist during a mild recession.

This program is, of course, the EB, which is designed to trigger in at realistic insured unemployment rates. Under the EB Program, the State IUR reaches 5 percent, the EB triggers in. Originally the level was 4 percent. However, in 1981 Congress realized these levels were too low and raised them to their current levels. It should be noted that this legislation also eliminated the national trigger.

H.R. 3863 attempts to rollback the clock to pre-1981 by including a 4-percent trigger and establishing a national trigger. Both of these are inappropriate changes.

H.R. 3863 would also establish a trigger based upon a State's total unemployment rate. We see little justification in using the TUR to increase benefit entitlements to insured unemployed. Furthermore, Congress has examined such approaches in the past and has rejected them.

It should be pointed out that such a test would result in benefit payments within States where the IUR is very low for that State and lower than our 9-year national average. To be specific, it appears as though 11 States would trigger on as a result of the TUR. However, only one State, Alaska, has an IUR over 4 percent. Certainly this is evidence enough that the TUR is not a realistic barometer of hardships facing the insured worker.

H.R. 3683 would establish a permanent system which would have three tiers whereby claimants could qualify for more benefits than under the combined State and extended benefit program. That would be 46, 51, and 56 weeks. We believe our current programs which allow up to 39 weeks based on the IUR should be left as is. These two programs provide excellent protection to the insured unemployed even during a downturn in the economy. They also provide adequate leadtime to allow Congress to add other programs if we have a major recession.

Such legislation can properly and fully address the problem without creating a number of unknown and costly side effects. We are also opposed to this bill as it shifts a greater burden of the costs to the employer. It is our policy that employers should be responsible for the first 26 weeks of benefits and during recessions for another 13 weeks. Any benefits beyond these limits should be financed through other means, as such long-term unemployment should not be a burden on just employers.

However, under H.R. 3863 the employer would be responsible for a portion of all benefits up to 56 weeks and probably have to pay more than under our current programs. This is an unwarranted shifting of the financial burden.

The Federal supplemental compensation program expires March 31, 1985, and we believe it should not be renewed. Our basic State system provides for at least 26 weeks of benefits in all States. In the past this level of protection has proved adequate except during recessions. Furthermore, if we should experience a downturn, we have the extended benefit program in place, which is designed to trigger in at certain IUR levels. This provides the unemployed with an additional level of protection if jobs are scarce.

We believe that a third layer of protection is not needed at this time. Of course, Congress could pass such a program if in the future the economy required it.

I would like to make one last comment on the FSC, and that is that Congress could better use these moneys to meet other social needs, rather than extend FSC at a time when so few insured workers are filing for benefits.

In conclusion, our unemployment insurance system has and will continue to provide an appropriate program for protecting the unemployed worker, encouraging stabilization of employment, and re-

leasing purchasing power during recessions. The major problem facing the system is financial, which is being resolved in an orderly manner.

It is therefore our recommendation that Congress not pass H.R. 3863 or any other legislation which would change the system and to extend FSC.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF EDWARD H. KAY, JR., CHAIRMAN, UNEMPLOYMENT COMPENSATION SUBCOMMITTEE, EMPLOYEE BENEFITS AND RELATIONS COMMITTEE, COUNCIL OF STATE CHAMBERS OF COMMERCE

SUMMARY

1. *Historical Background*—The unemployment insurance system is a Federal State program whereby the States establish their program under broad Federal guidelines.

2. *Adequacy of Protection*—Over the years the State systems have been modified to increase protection with the result that most claimants are properly protected. Financial pressure have required some cuts which the States will address in the future. Recommendation—No Federal Legislation.

3. *Role of Federal and State Governments*—This arrangement has worked in the past and will continue to do so in the future. Recommendation—No Federal Legislation.

4. *Performance During Recessions*—The system met its objectives during the recessions. Recommendation—No Federal Legislation.

5. *Extended Unemployment Compensation Act of 1983*—This change is not needed or warranted as it would unnecessarily increase costs, and shift costs to the employer. Recommendation—No Federal Legislation.

6. *Federal Supplemental Compensation*—This program should not be renewed as we have adequate safeguards through the regular state program and the Extended Benefit program. Recommendation—No Federal Legislation.

STATEMENT

My name is Edward H. Kay, Jr. I appear here today as Chairman of the Unemployment Compensation Committee of the Employee Benefits and Relations Committee of the Council of State Chambers of Commerce. I am a consultant specializing in unemployment and worker's compensation matters. Accompanying me is William R. Brown, President of the Council of State Chambers of Commerce.

Historical Background—The unemployment insurance system was initially established to meet three broad objectives which were:

1. To alleviate hardships of workers from the loss of wages during spells of temporary unemployment,
2. To encourage the stabilization of employment and
3. To exert a stabilizing and cushioning effect on the economy by releasing purchasing power during recessions.

It was (and still is) a joint Federal-State undertaking with the States operating their jobless pay program under broad Federal rules. The States determined the rules for eligibility, duration and the amounts of benefits. Also the States developed their own method of financing benefits under the Federal law which required that any reduced rates be based on experience.

Over the years Congress has made some changes in the program but most of these would be considered "fine tuning". However, there have been two areas where major changes have occurred in Federal law. The first was the passage of additional benefits programs to meet the needs of the unemployed during periods of high unemployment. The second was the recent enactment of legislation which has encouraged the States to strengthen experience rating and also provided definite direction for the States to resolve their financial problems.

As important as the changes Congress has made is the fact that on a number of occasions Congress has examined the Federal-State relationship to determine if additional Federal control or "standards" were desirable. In each case Congress wisely rejected this approach.

Though most of the Federal legislation as "fine tuning" the States have made many major changes over the years to meet their changing conditions. These

changes have greatly improved the protection afforded workers. As an example and of specific importance to this testimony is that claimants, in all States, can now qualify for at least twenty six weeks of benefits.

Adequacy fo Protection—As mentioned above the benefit programs are established by State laws. Over the years the States have improved their systems by increasing benefit amounts, duration and eligibility. This general trend of liberalizing the program continued into the late seventies at which time there was a move to tighten up on benefits. This was a result of the financial crisis facing most of the State systems. In most cases these changes were designed to moderate past liberlizations and had little effect on the adequacy of protection the system was designed to provide.

However, as part of the savings efforts many State have not increased their maximum weekly benefit amount or increased it at a very slow rate. The result is that the higher paid unemployed worker is not receiving the same level of protection as received in past years.

In most States the decisions to "freeze" the maximum benefit was usually in conjunction with other cost savings steps and sizeable increases in taxes. The packages were ususally a product of hard negotiations between representatives of labor and management. This indicates that both parties felt such steps were necessary in their State.

We believe the States will address the maximum benefit as their funds are replenished. Therefore Federal action is not necessary and would be inappropriate under our Federal-State system.

Respective Roles of Federal and State Governments—Our current unemployment program has worked remarkably well over the years primarily because of the roles played by the Federal and State Governments. As mentioned earlier the States role is to establish the basic benefit program and to finance it. The Federal role is to establish broad guidelines. In addition the Federal role has included passage of legislation to meet specific economic conditions. As an example extended benefit programs.

This system should not be changed as it has worked well in the past and will continue to work in the future.

Performance During Recent Recession—In 1979 approximately $10 Billion was paid in benefits. In response to economic conditions this increased to $14 Billion in 1980, $15.5 Billion in 1981, $21 Billion in 1982 and $23 Billion in 1983. The amount of benefits has now declined to 1980 levels because of our strong economy.

These large increases and the total size of the payments clearly indicates that the program responded very well during the recession. It provided protection to the millions of unemployed while at the same time released a lot of purchasing power which helped to moderate the recession.

Extended Unemployment Compensation Act of 1983 (HR 3863)—We are opposed to this legislation as it would result in an unwarranted liberalization of our benefit system and place an additional financial burden on the States at a time when they are attempting to recover from the previous devastating recessions.

As mentioned earlier all States allow claimants to qualify for twenty six weeks of benefits. We believe this is a proper length of time during nonrecessionary periods and should be adequate for today's economy. However, this basic length of duration is currently increased by eight to fourteen weeks under the Federal Supplemental Compensation program (F.S.C.), which was extended in October 1983 to expire March 31, 1985. This program is not needed today and should be terminated as we already have in place a second designed to meet the problems which would exist during a mild recession.

This program is the Extended Benefit (E.B.) program which is designed to "trigger in" at realistic Insured Unemployment Rates (I.U.R.). Under the E.B. program benefits begin when the state I.U.R. reaches 5% and is 120% greater than the preceding two years or when the I.U.R. reaches 6% and the State has waived the 120% test. Originally the levels were 4% and 5%; however, in 1981 Congress realized these levels were too low and raised them to their current levels. It should be noted that this same legislation also eliminated the national triggers.

H.R. 3863 attempts to roll back the clock to pre 1981 by including a 4% trigger and establishing a national trigger. Both of these are inappropriate changes.

H.R. 3863 would also establish a trigger based on a State's Total Unemployment Rate (T.U.R.). We see little justification in using the T.U.R. to increase benefit entitlements to the insured unemployed. Furthermore, Congress has examined such approaches in the past and has rejected them. It should be pointed out that such a test would result in benefit payments within States where the I.U.R. is very low for that State and lower than our nine year national average. To be specific, it appears as though eleven States would "trigger on" as a result of the T.U.R. however, only one

state (Alaska) has an I.U.R. over 4%. Certainly this is evidence enough that the T.U.R. is not a realistic barometer of hardships facing the insured worker.

H.R. 3863 would establish a permanent system which would have three tiers whereby claimants could qualify for more benefits than under the combined State and Extended Benefit program, (46, 51 and 56 weeks). We believe our current programs which allows up to 39 weeks based on the I.U.R. should be left as is. These two programs provide excellent protection to the unemployment even during a downturn in the economy. They also provide adequate lead time to allow Congress to add other programs if we have a major recession. Also we believe that if economic conditions ever warrant further extensions, Congress should address these issues at that time. Only then can they enact legislation which will properly and fully address the problem without creating a number of unknown and costly side effects.

We are also oppposed to this bill as it shifts a greater burden of the costs to the employer. Currently employers are responsible for all costs under the State program and the E.B. program. F.S.C. is financed from general revenue which we believe is correct. (It should be noted that F.S.C. was originally designed to pick up after E.B.).

It is our policy that employers should be responsible for the first 26 weeks of benefits and during recessions for another 13 weeks. Any benefits beyond these limits should be financed through other means as such long term unemployment should not be a burden on just employers. However, under H.R. 3863 the employer would be responsible for a portion of all benefits (up to 56 weeks) and probably have to pay more than under our current programs. This is an unwarranted shifting of the financial burden.

Federal Supplemental Compensation—The F.S.C. program expires March 31, 1985 and should not be renewed.

Our basic State system provides for at least 26 weeks of benefits in all States. In the past this level of protection has proved adequate except during recessions. Furthermore, if we should experience a downtown we have the Extended Benefit program in place which is designed to trigger in at certain I.U.R. levels. This provides the unemployed with an additional level of protection if jobs are scarce. These two programs acting in tandum establishes a strong system designed to protect the worker during good times and short recessions.

We believe that a third layer of protection is not needed at this time. Of course, Congress could pass such a program in the future if the economy required it.

In justification of this position one only has to look at the fact that billions of dollars are being out through a program which was originally designed to meet the problems brought on by major recessions. However, today we are not in a recession but rather in an economic growth situation where our Insured Unemployment Rate is at an extremely low rate. Congress established a 5% I.U.R. as the trigger point for E.B. Even H.R. 3863 uses a 4% I.U.R. However, our current F.S.C. program is paying benefits in states with even a lower I.U.R.

Following are some examples:

State	Weeks	IUR (percent) [1]
Alabama	12	3.20
Arkansas	12	2.93
California	12	3.14
Idaho	14	3.48
Illinois	12	2.68
Kentucky	12	2.74

[1] Trigger notice No. 84-32 USD—as of Aug. 11, 1984.

Furthermore the I.U.R.s in most States are very low compared to past years. In this regard we would like to compare the current I.U.R. to the Long Term I.U.R. as developed for the F.S.C. trigger. In Maine the I.U.R. would have to increase 47% to equal their L.I.U.R., in Michigan 101%, Ohio 98%, Pennsylvania 64%, West Virginia 95% and Wisconsin 96%. These are sizeable increases and should help to illustrate that our economy does not need any extra benefits beyond the normal State programs.

One last comment is that Congress could better use these monies to meet the social needs rather than extend F.S.C. at a time when so few insured workers are filing for benefits.

CONCLUSION

Our unemployment insurance system has and will continue to provide an appropriate program for protecting the unemployed worker, encouraging stabilization of employment and releasing purchasing power during recessions. The major problem facing the system is financial which is being resolved in an orderly manner.

It is therefore our recommendation that Congress not pass H.R. 3863 or any other legislation which would change the system and to not extend F.S.C.

Chairman FORD. Thank you very much, Mr. Kay. We will go to the next witness, but you have made a strong statement about the Federal supplemental compensation program not being extended after the expiration date of March 31, 1985, and you have indicated that if we should experience a downturn we have the extended benefit program.

Right now, out of all 50 States, we do not have a State that has triggered in on the extended benefit program. We do know that there are still 8.5 million people who are, in fact, unemployed. What I think this subcommittee and this Congress would like to try to do is to put a permanent program in place, so if there is that downturn in the economy we will have a program that is already in existence. And I am not certain that the extended benefit program has been able to reflect to the needs of those displaced workers or those who are out of work through no fault of their own.

You have indicated strongly that we should not extend the FSC, but I listened to the testimony that you have placed before the subcommittee. What is the alternative? What do we do? Where do we go from here?

You know, you look at the IUR and we can see that, whatever that tier of the program has meant to the program overall, it has not responded to some States. What Governors have brought out today before the committee and we have talked about with other witnesses is that there have been States with 9 and 10 percent unemployment in their States and we have not been able to respond outside of the regular State unemployment compensation along with the FSC, because of the extended benefit program and the IUR has just kept many States with high unemployment from triggering on.

Mr. KAY. I believe the concept that I have tried to bring out is use the unemployment system to meet its primary objective, and that is to give protection to the insured unemployed during temporary periods of unemployment. If the insured unemployment rate starts to grow, starts to exceed the 5 percent, then you need to trigger in higher benefits.

Those situations where the insured unemployment rate is relatively low—and in my testimony I gave a number of examples. As an example, in Michigan it would have to almost double to come up to its 2-year average, its last 2-year insured unemployment average. A doubling of the insured unemployment rate is a very drastic increase. Illinois would have to go up dramatically also.

But in these situations where there are problems, where there is a high total unemployment rate, these should be addressed through a program other than the unemployment insurance system. Using the unemployment insurance system may provide some additional assistance to those people you would like to target it to, but it is also going to provide an awful lot of unwarranted benefits to those

individuals who really should not be receiving it or are not really in the labor market.

And the study that was done on FSC recipients pointed out the fact that there are an awful lot of FSC recipients whose past work history is in the service industries. Service industries have been growing dramatically during the period of time when FSC was being paid, and yet these people did not go out and obtain employment in the service industries where they had previously been working. Why? I'm not sure why, but I would certainly believe that Congress would prefer not to funnel money back into individuals who could find employment in the service industries, assuming that it is not a very high pocket area where there are just no jobs at all.

But when you have FSC that is being paid in States where the insured unemployment rate is less than 3 percent 10, 12, 14 weeks, you have got 8 weeks being paid in all States, that is not the best utilization of the resources that are at your disposal. Use those resources to hone in on those particular problems that you are addressing, that you are talking about, and on those individuals between the insured unemployed and the total unemployment that need some very definite help. Hone in your resources on those people, not by using the unemployment insurance system for that.

Chairman FORD. I hear you, Mr. Kay, but I also heard Ms. Jackson a minute ago, the lady who testified, who had a factory job and was not in the service industries, a mother who is 40 years of age with two or three children, she mentioned. She is seeking a job, but now she has been placed in another class, the new poor, receiving public assistance that the Government will have to pay up.

What happens in this case? This lady was not here from the service industries. I mean, she is here from the factories that have been closed down. She is seeking a job and would like to work and wants to work. But she is having these problems in the work force.

Whether she needs to be retrained or some type of job placement program, in the meantime what happens to Ms. Jackson and her children, her family? I mean, what happens there? Do you tell her that, well, qualify for public assistance and there it is?

Here is a lady who has said to this committee today, I want to work, I want a job, I do not want public assistance.

And the chamber of commerce has said that over and over and over, not only to this subcommittee but from a national perspective, when there are bills before this committee from the subcommittee on public assistance dealing with welfare reform or welfare amendments, the chamber of commerce will oppose those amendments.

And at the same time we are saying that this is a program that would in fact provide benefits on a temporary basis for those displaced workers or those who have lost jobs through no means of their own, to give them the time to seek and to find and to be placed in another job. What we are saying is that I think that those who have been displaced from a factory job or a good paying job who would want a job the next day.

But I cannot believe that, with unemployment being 7.5 percent, that we would want to think that those unemployed people can

walk out in the work force tomorrow morning or the next day after being laid off from their job to find another job.

Do we have a responsibility, and if so what is the Government's role, the Federal Government's role, in responding to this critical unemployment problem, knowing that we hopefully have just been able to walk out of a recession and do not know when a downturn in the economy will happen again or springboard back up?

Do we set in place a permanent program that will respond to that particular need? I would hope and trust that the chamber of commerce would see that we will be in fact marking up or working on some legislation and, rather than taking the opposition standpoint before really being privy to all of the facts and seeing whether or not the chamber of commerce can share with this committee and other Members of this Congress, both the House and the Senate, to come up with some legislation that would in fact respond to those problems when we have a downturn in the economy.

And I hear what you are saying. I can appreciate what you are saying to a certain degree, but at the same time I think that we do have a responsibility. And how great will that responsibility be? When we have a downturn in the economy, should all of that burden be shifted to the States?

And I know Mr. Brown is here to give us an example in West Virginia. But I am not sure that States create this national or international problem with a recession here in this country, of economic problems that we are faced with in this country that cause the corporate community or the business community to lay off large numbers of people.

Mr. BROWN. If I might just add, Mr. Chairman, I was very much interested in the comment that the witnesses for the ICESA made before that they will be proposing legislation. We will consider their suggestions carefully. Our basic position is that we have a system that is working well for the purpose it is designed to achieve. The problem is that there are problems it does not really address. So we would hope that when you address the other problems that are not addressed by the regular unemployment compensation system and the EB system, that you do not mess up the system that is working properly; that you look at the other problems and recognize that these do require some different answers; that they are not really related to the employment practices of the employer. In many cases they are structural changes and whatnot, so that the employer should not be expected to finance those benefits, as he does the regular benefits. He is properly expected to finance the regular benefits up to 26 weeks.

And that is the main concern that we have, that we are not saying that you do not have other problems that you need to address. We simply do not want to see you mess up a system that is working properly while you are addressing those problems.

I might comment quickly on West Virginia. In the case of the witness from West Virginia, I did not have a chance to speak to him and find out a little bit more about the plant closing, because I am not really familiar with that particular situation. I happen to be a resident of West Virginia. I do know quite a bit about the State, and there are a lot of reasons why people close plants in West Virginia instead of someplace else.

West Virginia by its own actions, the actions of its legislature and its Governors, has gotten itself in a very unenviable position of having one of the worst business climates of the States. You pay taxes in West Virginia on a gross receipts basis, whether you make any money or not. And this is something that is going to have to be corrected in Charleston and cannot be corrected by the Ways and Means Committee.

I do not know to what extent Federal tax laws would be a factor, but I do know that when things close down in West Virginia and they have plants other places, there are good business reasons why you choose to close the plant in West Virginia instead of closing it, say, in Tennessee.

I am happy to say, though, we have candidates for Governor in the State of West Virginia now who both recognize that there is great need to improve the business climate of West Virginia. So whether the Democratic or the Republican candidate wins, I am hopeful that West Virginia will start to—it has started recognizing the problem, and hopefully it will start to do something about it.

Mr. KAY. Just to kind of reemphasize, I think that there would be nothing that we would rather support than some type of legislation that could come down and address Mrs. Jackson's problem specifically.

Chairman FORD. Well, that is basically what we are trying to do. I mean, we are not trying to come up with a major program. We are just really trying to find ways to implement a permanent program that will respond to the unemployed like Ms. Jackson and the many others who are out there.

And there must be some way for us to draft some legislation, and we are calling upon witnesses and institutions and organizations to give us that assistance in trying to draft this legislation that will be needed.

STATEMENT OF DONALD P. WHITELEY, PROFESSIONAL EMPLOYMENT REPRESENTATIVE, ICI AMERICAS, INC., WILMINGTON, DE, AND MEMBER, COUNCIL ON UNEMPLOYMENT COMPENSATION, CHAMBER OF COMMERCE OF THE UNITED STATES, ACCOMPANIED BY SAMUEL A. ROTH, ASSOCIATE MANAGER, EMPLOYER RELATIONS

Mr. WHITELEY. My name is Donald Whiteley, professional employment representative for ICI Americas, a former secretary of labor for the State of Delaware, and a member of the U.S. Chamber's Council on Unemployment Compensation, on whose behalf I appear today. Accompanying me is Sam Roth, the chamber's associate manager, Employer Relations, and staff executive for the Council on Unemployment Compensation.

We appreciate the opportunity to appear on behalf of the chamber to present our views on proposals to improve the unemployment insurance system. We have submitted a written statement and I will try to summarize it briefly, in view of the time.

Chairman FORD. Any written statement will be made a part of the record.

Mr. WHITELEY. Thank you.

In our view, the UI system has met its goals and objectives and will continue to do so. Federal proposals should focus on fine tuning, rather than on placing additional burdens on the system, such as a permanent extended benefit program.

Our members, large and small, have a vital stake in the UI system because it is largely financed by employers. We support a sound unemployment compensation program.

The UI system was designed as a program of income maintenance for the temporarily and involuntarily unemployed worker. The system has always been a joint Federal-State undertaking, with clearly defined areas of responsibility. We see the objectives of the system generally as being threefold:

To alleviate the hardships from the loss of wage income during spells of temporary unemployment;

To encourage stabilization of employment; and

To exert a stabilizing cushioning effect on the economy by releasing purchasing power during economic recessions.

Congress originally gave the States broad discretion to structure their individual State UC programs. As a result, the State programs reflect the unique economic and social conditions of each State, with each State creating programs sufficient for its perceived long-term and short-term UC needs, including cyclical variations.

The States have performed their responsibilities well. For this reason, the Chamber opposes any efforts to federalize completely or to remake those unique State programs.

As you know, the UC system is financed by two payroll taxes, one Federal and one State. The FUTA Act established a nationwide payroll tax on employers, against which credit is allowed for either State unemployment taxes paid or for reductions in such taxes earned through an experience rating concept. Virtually all the costs for benefits for jobless workers and administrative expenses are financed by State payroll taxes. There are a few States which collect minimal employee contributions.

The chamber supports the present form of UI system financing, especially the experience rating concept, because the program costs are distributed equitably, providing employers both the incentive to stabilize employment and to take an active interest in the program. We certainly oppose diversion of UC trust funds for other non-UC purposes and oppose automatic FUTA wage base increases.

Throughout the seventies and the recent recession, a number of States incurred large debts to meet benefit obligations. Beginning in 1982, borrowing States were required to pay interest on Federal advances. As a result, they have taken measures to repay their debts, usually in the form of a combination of tax increases on employers, tightening of the eligibility requirements, and reduced benefits.

The States should voluntarily continue these steps toward solvency. The U.S. Chamber of Commerce opposes efforts to defer or forgive repayment of those debts.

States currently establish and maintain benefit duration levels and schedules, as well as eligibility criteria, work-search requirements, et cetera. The chamber supports the concept of the State employer responsibility for regular benefits for the first 26 weeks, as well as for the partial funding of the EB Program.

The chamber supported the important reforms made in the EB Program in 1981 to target the EB Programs and benefits to those who actually need the assistance most. We continue to support the following concepts with regard to benefits, qualifications, and duration, to accomplish the dual goals of temporary assistance and incentives to return to work:

Benefits should provide a sufficient differential between the claimant's benefits and prior earnings;

UC benefits should be paid to persons with a demonstrated attachment to the work force, who are actively seeking employment, and not to persons unemployed as a result of a labor dispute;

Prior to a claimant recovering extended benefits, there should be a noncompensable 1-week waiting period;

Benefits extensions should not be allowed if the reason for termination was voluntary quit, misconduct, failure to seek or accept work;

EB should be finely tuned to help claimants find new jobs and require States with stable unemployment rates to trigger of EB;

Claimants should be required to complete work search training programs as an eligibility requirement for EB;

Covered employers who are exempt from the FUTA tax should be required to pay the full cost of benefits attributable to service performed for them and make appropriate contributions to the administrative costs.

The chamber generally opposes the supplemental Federal extensions beyond EB. The FSC Program should be allowed to expire in March 1985. Such extensions are costly and run counter to the notion of creating an incentive to return to work.

Critics argue that the UI system is not providing benefits to a majority of those individuals still unemployed and should therefore be overhauled, replacing State-set benefit standards with Federal standards or instituting permanent benefit extensions. In reality, those people are criticizing the UI system for failure to perform a function—permanent and long-term benefits and coverage—for which the system was not designed. UC benefits are basically for workers who are temporarily and involuntarily unemployed.

It is important to remember that the system was designed and in our view should continue to be a program for those who are temporarily unemployed through no fault of their own, and it should encourage a return to work. Those who have exhausted regular and extended benefits should be transferred to other public assistance programs.

In lieu of longer and longer benefit payments, the chamber strongly supported enactment of title III of the Job Training Partnership Act as a significant State program for the long-term unemployed. We urge Congress to examine the results of title III of JTPA as a possible substitute for long-term UC insurances such as FSC, since UC, as I said, is designed for and functions most efficiently in short-term unemployment.

Additional improvement of UC can be accomplished by further efforts to identify fraud and abuse. DOL is currently constructing a quality control program that will detect and correct overpayments, and we applaud that effort. Employers have brought pressure on

States to reduce fraud and overpayment, and States are responding to those pressures.

We want to stress that the value of experience rating in improving the UI system can not be overstated. We urge Federal and State governments to prevent its further erosion, which happens when across-the-board tax increases are made.

Congress should avoid adoption of economic policies that discourage employment. Economists generally agree that payroll tax increases ultimately discourage employment.

The chamber opposes H.R. 3863 and the concepts on which it is based. The bill would raise the cost of EB and shift a substantial part of the cost of FSC from Federal Government revenues to State and Federal unemployment tax revenues, reversing the current FSC provisions requiring complete funding by Federal general revenues.

The impact on the unemployment trust fund would be profound. A substantial tax drain would befall States now struggling to repay a cumulative debt of more than $10 billion.

Merging EB and FSC is unwise and costly to the States, employers, Federal Government, and ultimately to the consumers.

H.R. 3863 would discourage the progress being made in helping the unemployed gain jobs. Economic studies have repeatedly demonstrated that extending the potential or permanent duration of benefits induces an individual claimant to draw benefits longer.

H.R. 3863 would adversely affect many aspects of UC. The heavy claims load and the longer availability of benefits under these proposals would inhibit the State administering agencies from providing proper services and would be costly.

Finally and perhaps most ironically, the increased payroll taxes needed to fund the new system would certainly make it more difficult for business to maintain and expand employment.

The chamber continues to support a strong UI system and UC benefits for the temporarily and involuntarily unemployed. We urge Congress to examine alternatives to long-term benefit programs, such as title III of JTPA. The UI system in our view is not in need of an overhaul. Instead, Congress and the States should continue efforts toward solvency and should work toward a fine-tuning of the system.

Thank you.

[The prepared statement follows:]

STATEMENT OF DONALD P. WHITELEY, MEMBER, COUNCIL ON UNEMPLOYMENT COMPENSATION, CHAMBER OF COMMERCE OF THE UNITED STATES

My name is Donald P. Whiteley, Professional Employment Representative for ICI Americas, Inc., a former Secretarty of Labor for the state of Delaware, and a member of the U.S. Chamber's Council on Unemployment Compensation on whose behalf I appear today. Accompanying me is Samuel A. Roth, The Chamber's Associate Manager, Employer Relations and staff executive for the Council on Unemployment Compensation.

We appreciate the opportunity to appear on behalf of the Chamber to present our views on proposals to improve the unemployment insurance (UI) system.

In our view, the UI system has met its goals and objectives and will continue to do so. Federal proposals should focus on fine tuning, rather than placing additional burdens on the system, such as permanent extended benefit programs.

Our members, large and small, have a vital stake in the UI system function and maintenance because it is largely financed by employers, in addition to some federal general revenues. We support a sound unemployment compensation (UC) Program.

FEDERAL-STATE UI SYSTEM

The UI system was designed as a program of income maintenance, provided through weekly cash benefits, for the temporarily and involuntarily unemployed worker. The system always has been a joint federal-state undertaking, with clearly defined areas of responsibility.

Objectives of the system most generally recognized are threefold: To alleviate hardships of workers from the loss of wage income during spells of temporary unemployment; To encourage stabilization of employment; and To exert a stabilizing, cushioning effect on the economy by releasing purchasing power during economic recessions.

Federal law virtually compels the maintenance of state UC programs under rules relating to financing and administration. Nevertheless, the states have retained the right to decide important matters, such as the amount and duration of benefits, conditions of benefit qualification, methods of individual-employer experience rating and related matters.

Congress originally gave the states broad discretion to structure their individual state UC programs. As a result, the state programs reflect the unique economic and social conditions of each state, with each state creating programs sufficient for its perceived long-term and short-term UC needs, including cyclical variations.

The states have performed their responsibilities well. For this reason the Chamber opposes any efforts to federalize completely or to remake these unique state programs through the use of federally-dictated standards (i.e., national triggers or benefit standards). The existing federal-state partnership reflects their highest traditions of our nation's commitment to a federal-state form of government.

FINANCING

The UC system is financed by two payroll taxes—one federal and one state. The Federal Unemployment Tax Act (FUTA) established a nationwide payroll tax on employers, against which credit is allowed either for state unemployment taxes paid or for reductions in such taxes earned through experience rating. Virtually all costs of benefits for jobless workers and administrative expenses are financed by these payroll taxes (only four states also collect minimal employee contributions.)

The Chamber supports the present form of UI system financing because the program costs are distributed equitably, providing employers both the incentive to stabilize employment and to take an active interest in the program. The use of experience rating as the basis for unemployment compensation tax policy is yet another mechanism for states—and the employers in those states—to promote equity in financing and avoid socialization of costs.

We oppose diversion of UC trust funds for non-UC purposes and oppose automatic FUTA wage base increases.

STATE DEBTS

The U.S. Chamber opposes efforts to defer or forgive repayment of federal loans to the states.

Throughout the 1970's and the recent recession, a number of states incurred large debts to meet benefit obligations. A variety of factors combined to create the current state debt situation, including prolonged, high unemployment; inclusion of previously uncovered workers in the UI system through federal legislation; increased maximum and average weekly benefits caused by increased wages and salaries; liberalized benefit amounts and formulas; and, the extended duration of benefit increases pursuant to the Extended Benefits (EB), Federal Supplemental Benefits (FSB), and Federal Supplemental Compensation (FSC) programs.

Beginning in 1982, borrowing states were required to pay interest on federal advances. As a result, they have taken measures to repay their debts, usually in the form of a combination of tax increases on employers, tightened eligibility requirements and reduced benefits. Most experts feel that only a few states will have difficulty making timely repayments. This recent "belt-tightening" by states reinforces their sense of fiscal responsibility and incentive, ensuring against future running up of large debts while the states continue moving toward solvency. The states should voluntarily continue to take steps toward solvency.

Many borrowing states have qualified for deferral of interest due, interest rate discounts or outright delay in interest payment as a result of federal legislation, further easing the burden of accumulated debts. Generally, the states must take action to restore solvency to take advantage of this relief.

The current Department of Labor (DOL) debt repayment forecast looks very encouraging, although we feel it may be on the conservative side. According to DOL, of the 16 states repaying loans through reduced FUTA credits, all but three are expected to complete repayment by 1989. Continued growth in the economy and further changes in state laws may accelerate these repayments.

BENEFITS

States currently establish and maintain benefit duration levels and schedules, as well as eligibility criteria, worksearch requirements, etc.

The Chamber supports the concept of employer responsibility for regular benefits for the first 26 weeks, as well as for the funding of the EB program (50% state unemployment tax. 50% Federal Unemployment Tax).

It is important to reemphasize a basic premise of the UI system. UI is for the temporarily and involuntarily unemployed and should concurrently provide an incentive to return to work at the earliest possible time.

The Chamber supported the important reforms made to the EB program in 1981. The purpose of those reforms was not to cut the budget, but rather to target the EB programs and benefits to those who actually need assistance. This was achieved by eliminating the use of a 4.5% nationwide "insured unemployment rate" (IUR) trigger, raising the state triggers by 1%, not counting EB claims in calculating the IUR, and limiting eligibility for EB to individuals who had worked at least 20 weeks or the equivalent.

In addition, we continue to support the following concepts with regard to benefits, qualifications and duration, to accomplish the dual goals of temporary assistance and incentives to return to work:

Benefits should provide a sufficient differential between the claimants' benefits and prior earnings;

States should periodically review (and revise if necessary) benefit schedules in light of changed conditions;

UC benefits should be paid to persons with a demonstrated attachment to the workforce who are actively seeking employment and not to persons unemployed as a result of a labor dispute;

Prior to a claimant recovering extended benefits, there should be a noncompensable one-week waiting period;

Benefits extensions should not be allowed if the reason for termination was voluntary quit, misconduct, failure to seek or accept work, etc.;

EB should be fine tuned to help claimants find new jobs, and require states with stable unemployment rates to trigger off EB;

Claimants should be required to complete work search training programs as an eligibility requirement for EB;

Covered employers who are exempt from Federal Unemployment Tax should be required to pay the full cost of benefits attributable to service performed for them and make an appropriate contribution to the administrative costs; and

Special federal unemployment benefits should be paid only at the same weekly rate and for the same duration as regular benefits. If special benefits must be payable, they should be limited to persons who agree to enter retraining programs.

We are opposed to proposals to convert payment of UC benefits into one lump sum.

The Chamber opposes supplemental federal extensions beyond EB. The FSC program should be allowed to expire in March, 1985. Such extensions are costly and run counter to the notion of creating an incentive to return to work.

Such extensions, if in effect, should continue to be wholly financed, including administrative costs, from federal general revenues since they are not unemployment insurance.

We note that there has been no enforcement of the enabling legislation's provision for charging FSC administrative costs to federal general revenues. Failure to do so only diverts needed funds—to provide job search assistance and combat rampant fraud and abuse—from state UC programs. Congress should require that all FSC costs—past and future—be charged to general revenues.

Moreover, the remaining debt from the FSB program should also be charged to general revenues rather than FUTA receipts. When FSB was established, initially its costs were charged to the FUTA-funded account used for EB. That account had

insufficient revenues for its original purpose, and loans were extended from general revenues to cover FSB. In addition, a temporary .2% FUTA surcharge was imposed on all employers—regardless of their experience with layoffs—to repay the debt.

Congress recognized that benefits to the long-term unemployed should not be an employer obligation when it reauthorized FSB in 1977 and when it established FSC. By charging the FSB debt to general revenues, the temporary .2% surtax would expire. Easing the payroll tax burden on business in this fashion would give added incentive for employers to boost employment that would mitigate the need for continuing benefit extensions.

PERFORMANCE OF THE UI SYSTEM

Critics argue that the UI System is not providing benefits to a majority of those individuals still unemployed and, should therefore be overhauled, replacing state-set benefit standards with federal standards or instituting permanent benefit extensions.

In reality, those people are criticizing the UI system for failure to perform a function—permanent and long-term benefits and coverage—for which the system was not designed. UC benefits are for workers who are temporarily and involuntarily unemployed.

Those who have exhausted regular and extended benefits should be transferred to other public assistance programs. Improvements in the employment picture as the economic recovery continues should lessen the need for a long-term benefit program.

In lieu of FSC or similar programs, the Chamber strongly supported enactment of Title III of the Job Training Partnership Act (JTPA) as a significant state program for the long-term unemployed.

Under Title III, the federal government provides funds for training and retraining, job search assistance, placement, relocation assistance, and other aid. States must apply for grants, identifying the need, activities, and projected results. States determine who is "dislocated," including those affected by import competition, mass layoffs, plant closings, and federal government actions.

States are required to match a portion of the federal grant, but the percentage is reduced for States experiencing high unemployment. Participants in Title III programs may not be disqualified from receipt of UC because of failure to be available for or to seek work. $110 million was provided for Title III in FY 1983, $223 million in FY 1984, and the FY 1985 budget request is for $223 million.

We urge Congress to examine the results of Title III of the JTPA as a possible substitute for long-term UC programs such as FSC, since UC is designed for, and functions most efficiently in, short-term unemployment.

Additional improvement of UC can be accomplished by further efforts to identify fraud and abuse. Overpayments have been estimated by studies and the DOL's random audit program to be as high as one-third of all UC payments. DOL currently is constructing a quality control program that would detect and correct overpayments, and we applaud the effort.

The value of experience rating in improving the UI System can not be overstated and we urge federal and State governments to prevent its further erosion.

Better controls on abuse and improved experience rating would reduce the claims load and make a more generous UI system affordable.

Finally, Congress should avoid adoption of economic policies that discourage employment. Economists generally agree that payroll tax increases ultimately discourage employment.

EXTENDED UNEMPLOYMENT COMPENSATION ACT OF 1983

H.R. 3863, the Extended Unemployment Compensation Act of 1983 (Stark, D-CA; Pease, D-OH; and Kaptur D-OH) would overhaul the federal programs of extended and supplemental unemployment compensation. This would be accomplished by doing away with the distinction between EB and FSC, and mandating one permanent extension of up to 35 weeks for claimants who exhaust State benefits.

The Chamber opposes H.R. 3863 and the concepts on which it is based.

The bill uses a sliding scale linked to the unemployment rate to determine the number of extra weeks and the mix of funding (State unemployment tax, federal unemployment tax, federal general revenues). The trigger rate would be linked to the total unemployment rate (TUR), a statistically unreliable measure that also includes numerous individuals not counted in the insured rate. The bill also would raise the cost of EB and shift a substantial part of the cost of FSC from federal gen-

eral revenues to State and federal unemployment tax revenues, reversing the current FSC provisions requiring complete funding by federal general revenues.

The impact on the Unemployment Trust Fund would be profound. A substantial tax drain would befall States now struggling to repay a cumulative debt of more than $10 billion. These added costs would jeopardize State eligibility for interest and loan relief by forcing liberalization of State laws to conform with the legislation, despite the enormous political sacrifices States have made to restore solvency.

Merging EB and FSC is unwise and costly to the States, employers, federal government and, ultimately, consumers. EB, thanks to the 1981 changes and a 1982 federal unemployment tax increase, is finely targeted, and became solvent for the first time in history last year. FSC remains loosely-targeted with little effort made to link FSC with job search assistance, the method proven most cost-effective in getting workers off the jobless rolls.

H.R. 3863 would discourage the progress being made in helping the unemployed gain jobs. Economics studies have repeatedly demonstrated that extending the potential or permanent duration of benefits induces an individual claimant to draw benefits longer. Indeed, serious efforts to find employment may be delayed until benefits are nearly exhausted. In many cases, UC benefits, combined with other sources of public aid, exceed the claimant's take-home pay while employed. It is not hard to understand why some individuals might take their time looking for jobs.

In addition, H.R. 3863 would affect adversely the many aspects of UC beyond short-term cash assistance. UC is an important component of our national employment and training and related human resources services, providing job market service designed to aid in the pursuit to reemployment. The heavy claims load and the longer availability of benefits under these proposals would inhibit the state administering agencies from providing these supplementary services.

Finally, and perhaps most ironically, the increased payroll taxes needed to fund the new system would make it more difficult for business to maintain and expand employment.

CONCLUSION

The Chamber continues to support a strong UI system and UC benefits for the temporarily and involuntarily unemployed. We urge Congress to examine alternative to long-term benefit programs, such as Title III of JTPA, since the UI system is designed to remove workers from the jobless rolls, as quickly as possible and to provide incentives to return to work, not to lengthen the duration of UC benefits or unemployment.

The UI system is not in need of an overhaul. Instead, Congress and the state should continue efforts toward solvency and should work toward fine tuning the system.

Chairman FORD. Thank you very much.

You know, as the subcommittee and the full committee, I guess 12 months ago, met for the extension of the FSC Program, we thought at that time, along with Members of the Senate who testified on the House side, that we might have had ample time to reform the FSC or the Federal and State Unemployment Compensation Program. We felt that it was necessary at that time to take a look at the FSC Program, as well as the extended benefits, and to see whether or not we could revise the programs at that point.

We did make a commitment from the subcommittee level that we would look at it, and we had 18 months, which would have been ample time for us to have witnesses, like the chamber of commerce and others, to come in and to testify and to talk with us and to share with us information that we feel that would be beneficial, to reform the Federal and State unemployment insurance.

As chairman of the committee, I certainly feel compelled that we must do something at this point, and I do not have all of the answers today. That is the purpose of coming with the witnesses. But I would hope and trust the chamber of commerce would take a closer look, and to offer something that might be a little bit more constructive to the planning and the drafting and moving a piece

of legislation, that not only business and the corporate community but the unemployed people of this country will also be affected by.

I share your concerns as a small business person myself in private life. I do have those same concerns. But at the same time, I think the picture is a lot bigger and greater than just what we have talked about, and that we have to try to respond to those displaced workers or we have to respond to those who have been laid off through no fault of their own.

And I have heard your testimony and can appreciate it, but I would also seek help from the chamber of commerce at this point to look closer at this issue. This is not a bill we are going to mark up next week or next month. The FSC expiration is March 31 and we all have ample time to take a close and good look and be clear in our minds as to what we are doing.

And I seek that help from the chamber of commerce and I ask the chamber of commerce to join with us to, let us go out and explore some other possibilities and take a closer look. And I would trust that that would happen.

Mr. WHITELEY. I think the chamber recognizes that there is indeed a problem there. We are not convinced that tampering with the present unemployment insurance program is the way to solve the problem; that there may be other reasons why the problem exists and maybe we ought to look at those basic reasons, rather than tampering with the unemployment insurance system, which, as I have said, we think works pretty well for the purpose for which it was designed.

But you can be assured that the chamber will be more than willing to consider all alternatives and hopefully maybe be able to come up with some worthwhile suggestions that would be helpful to your subcommittee.

Chairman FORD. The subcommittee would certainly appreciate any additional information and any recommendations that the chamber of commerce would like to submit to the subcommittee. We would welcome it, and as chairman of the subcommittee I would appreciate it very much if you would work and look a little bit closer at this.

Mr. WHITELEY. We are very sensitive to the comments of the people who were here today representing the unemployed. We are well aware of it, and I personally know of no employer who is ever happy to see people laid off, if for no other reason than it means his business is going down the tubes.

And so we certainly are very sympathetic and empathetic to the plight of those people, and I think the chamber will do what it can to come up with perhaps some positive proposals that might work towards solving the problem which exists.

Chairman FORD. Thank you very much.

I would like to call the next four witnesses and to say that you were all on separate, but there is only going to be about five of us in the room, so I would appreciate it if we could have all of the witnesses: the Retired Officers Association, and Mr. Sarasin, one of our former colleagues in the House, we are very delighted to have you come and appear before the committee.

We also have Mr. James H. Fenton with the Automatic Data Processing, Inc. He is the product manager and unemployment

compensation management. And also, Ms. Linda R. Wolf Jones, Community Service Society of New York; along with Mr. John F. Wanamaker from the Retired Officers Association.

You were all to appear separately, but since we are about the only four or five left in the room, I thought it would be all right if we would just put all four of you on a panel, and it is just us anyway.

STATEMENT OF JOHN F. WANAMAKER, COMMANDER, USN, RETIRED, DEPUTY DIRECTOR, LEGISLATIVE AFFAIRS, RETIRED OFFICERS ASSOCIATION

Mr. WANAMAKER. Mr. Chairman, members of the subcommittee, I am Cmdr. John Wanamaker, U.S. Navy, retired, and I am the deputy director for legislative affairs of the Retired Officers Association, which has its national headquarters at 201 North Washington Street in Alexandria, VA. And our association has a membership of over 337,000 former and active duty members of the 7 uniformed services.

And I want to thank the members for providing me this opportunity to present the views of the Retired Officers Association on issues within the oversight responsibility of the subcommittee.

My purpose in appearing here before you today is to address a very narrow application of the unemployment compensation laws, and that is section 3304(a)(15) of the United States Code. A little background, Mr. Chairman. Public Law 94-566 amended the unemployment compensation laws to the effect that any military or civilian individual receiving a Government pension, retired pay, or similar periodic payment should have his or her unemployment compensation check reduced by an amount equal to the amount of such pension or retired pay.

This section of Public Law 94-566 was to become effective on October 1, 1979. However, it was subsequently delayed until April 1, 1980, to allow the National Commission on Unemployment Compensation an opportunity to make a thorough study of the issue, and that Commission's report stated in part that:

"This Commission consistently recommended that the present pension reduction requirement, in effect since April 1, 1980, be repealed prior to that effective date."

As a result of the recommendations of that study, the Congress amended 26 United States Code section 3304(a)(15) by the enactment of Public Law 96-364. It was clearly stated during the Senate debate on the amended rider to the ERISA law that it was the intent to limit the offset to only those pension benefits provided by a person's base period employer. And in regard to that, I have an attachment, a letter from Senator Chafee expressing his views, and he was one of the sponsors of that rider to that amendment.

Unfortunately, most States had already revised their unemployment compensation laws to conform to the United States Code as it existed between April 1, 1980, and the time of passage of Public Law 96-364, which was effective on September 26, 1980.

In implementing the changes brought about by Public Law 96-364, the Department of Labor issued the unemployment insurance program letter No. 7-81, and I have enclosed it as an attachment,

which strongly recommended that States proceed to take advantage of the less stringent conditions under which pensions must be deducted from unemployment benefits pursuant to the Federal law requirements.

This recommendation, however, falls short of the requirement that there be no deduction made unless the pension, annuities, or retired pay be provided by the person's most recent employer, as the legislative history clearly points out was the intent of the Congress. And I have also attached the conference report on that for that period of time.

The current status. As of January 1984, all but five States have complied with congressional intent to limit their pension offset of unemployment compensation plans maintained or contributed to by a base period employer. In those five States, employers pay the unemployment insurance tax, while in effect the State plans do not provide the insurance from wages lost due to involuntary unemployment.

Military retirees have been denied unemployment compensation, even though retired pay in many cases is based solely on service-connected disabilities. I have attached an example whereby an individual who was retired for combat disability was required to spend 6 months going through the appeal process in order to receive unemployment compensation benefits. And few have the resources or the stamina to pursue such an endeavor, especially during a period when they are actively seeking employment.

And with the enactment of Public Law 97-252, the Former Spouses Protection Act, military retired pay has been authorized to be awarded by State courts as community property, payable directly to a former spouse. In these cases there could arise situations where an unemployed former service member could have his unemployment compensation reduced by the amount of retired pay that he may not even receive.

Under current law State courts are authorized to award all or a portion of an individual's military retired or retainer pay as property to a former spouse. The recommendations are that the committee should require the Department of Labor either to revoke or modify its unemployment insurance program letter No. 7-81 in order to ensure that the Secretary of Labor only approve those plans which comply with the intent of Congress exempting the receipt of payments, annuities, or retired pay from unemployment compensation reductions unless such pension, annuity, or retired pay is based on the previous work for an employer during the base period for which the amount of unemployment compensation is determined.

Another recommendation would be to clarify section 26, United States Code 3304(a)(15) to ensure that the receipt of any military retired pay based on disability or veterans disability compensation shall not be cause to reduce the amount of unemployment compensation; and further, if States insist on continuing to offset the unemployment compensation by the amount of military retired pay, then modify the Federal unemployment tax laws to reduce the tax accordingly so that an employer is not required to pay the tax for such nonexistent insurance.

Thank you, Mr. Chairman, for allowing me the opportunity to present our views on this unemployment compensation program. I would be glad to answer any questions you might have.

[Attachments to the prepared statement follow:]

U.S. SENATE,
Washington, DC, September 18, 1980.

DEAR FRIEND: Because of your interest in veterans' affairs, I thought you would like to know about my pension offset legislation which is designed to help veterans claim full unemployment compensation benefits if they are laid off from a subsequent employer.

Current law requires all pension benefits to be used to reduce unemployment compensation benefits. The amendment limits the offset to only those pension benefits provided by a person's most recent employer. For example, if a military retiree is laid off from a civilian job, the pension from his or her previous employer—the military in this case—would not be deducted from unemployment benefits. In addition, the amendment allows states to limit the offset to only that portion of a pension contributed by the employer. For instance, an individual's contribution to his or her pension would not be counted in the offset.

American veterans have made great sacrifices in the service of their country. My amendment corrects a serious problem in the unemployment compensation program to provide equitable treatment for veterans.

The amendment has been cleared by the House and the Senate and will soon be signed into law.

Sincerely yours,

JOHN H. CHAFEE,
U.S. Senator.

U.S. DEPARTMENT OF LABOR,
EMPLOYMENT AND TRAINING ADMINISTRATION,
Washington, DC, November 7, 1980.

Directive: Unemployment Insurance Program Letter No. 7-81.
To: All State Employment Security Agencies.
From: Office of the Deputy Assistant Secretary, Roberts Jones, Administrator, Office of Management Assistance.
Subject: Amendments Made to the Federal Unemployment Tax Act by Public Law 96-364.

1. *Purpose.* To inform State agencies of the amendments made by Public Law 96-364 to the Federal Unemployment Tax Act, the Federal-State Extended Unemployment Compensation Act of 1970 (EUCA) and Title 5 U.S.C. 8521.

2. *References.* Sections 414, 415 and 416 of Public Law 96-364; Section 3304(a)(15), FUTA; Section 202, EUCA; 5 U.S.C. 8521(a)(1), and UIPL 24-80.

3. *Background.* These amendments modify the pension deduction provision in section 3304(a)(15), FUTA, specify circumstances in which extended benefits are not payable on interstate claims, and increase the period of service necessary for former members of the Armed Forces to establish entitlement to unemployment compensation under Title 5 of the U.S.C.

4. *Amendment to Section 3304(a)(15), FUTA, the Pension Deduction Provision.* Section 414 of Public Law 96-364 amended section 3304(a)(15), FUTA, to require deduction of pension payments only in specified circumstances, and to allow States to consider an individual's contributions to the pension payment in determining the amount to be deducted. As so revised, the pension deduction standard now provides as follows:

"the amount of compensation payable to an individual for any week which begins after March 31, 1980, and which begins in a period with respect to which such individual is receiving a governmental or other pension, retirement or retired pay, annuity, or any other similar periodic payment which is based on the previous work of such individual shall be reduced (but not below zero) by an amount equal to the amount of such pension, retirement or retired pay, annuity of other payment, which is reasonably attributable to such week[;] except that—

"(A) the requirements of this paragraph shall apply to any pension, retirement or retired pay, annuity, or other similar periodic payment only if—

"(i) such pension, retirement or retired pay, annuity, or similar payment is under a plan maintained (or contributed to) by a base period employer or chargeable employer (as determined under applicable law), and

"(ii) in the case of such a payment not made under the Social Security Act or the Railroad Retirement Act of 1974 (or the corresponding provisions of prior law), services performed for such employer by the individual after the beginning of the base period (or remuneration for such services) affect eligibility for, or increase the amount of, such pension, retirement or retired pay, annuity, or similar payment, and

"(B) the State law may provide for limitations on the amount of any such reduction to take into account contributions made by the individual for the pension, retirement or retired pay, annuity, or other similar periodic payment;". (New language underlined, deleted language bracketed.)

The amendments made by P.L. 96-364 to section 3304(a)(15) became effective on September 26, 1980.

Section 414(b) of P.L. 96-364 provides that the new pension deduction standard is applicable for certification of the States for 1981 and subsequent years. Therefore, States have the option to implement the new Federal deduction standard as of September 26, 1980. However, full conformity and compliance with the requirements of section 3304(a)(15), FUTA, as amended, is required for certification of State laws for the 12-month period beginning on November 1, 1980, and ending October 31, 1981. The requirements of section 3304(a)(15) prior to amendment by P.L. 96-364 remain effective through September 25, 1980. However, we do not recommend that these amendments be made retroactive except as is necessary where the State will have no pension deduction provision as of November 1, 1980, in which case the law should be made effective retroactively as of that date.

State laws which now provide for the deduction of pension payments in the circumstances prescribed by the Federal law prior to these amendments are not required to take further action in order to satisfy the requirements in the new amendments. However, we strongly recommend that States proceed now to take advantage of the less stringent condition under which pensions must be deducted from unemployment benefits pursuant to the Federal law requirements.

Section 3304(a)(15), FUTA as amended by P.L. 96-364, reflects only the minimum conditions under which deduction must be required by State law for certification under FUTA. Although a State may broaden the scope of its deduction of pension payments beyond the conditions in which deduction is required under the Federal law, it may not adopt less stringent conditions which fall short of the Federal requirement.

The requirement of the pension deduction standard in section 3304(a)(15), FUTA, as modified by the above cited amendments, is now applicable in less restrictive circumstances as noted above. The deduction is not only limited by the conditions contained in clauses (i) and (ii), but also gives States the option of limiting the deduction in unemployment benefits by taking into account an employee's contribution to the pension fund. As well be explained below, the limitations specified by these new clauses mean that the reduction in unemployment compensation by the amounts of pension payments received by an individual will be required under Federal law only if the pension is under a plan maintained or contributed to by a base period or chargeable employer and then, only if the services performed for such employer affect eligibility for, or increase the amount of, the retirement payment. However, as a result of the exception in clause (ii), eliminating application of its provisions to payments made under the Social Security Act or the Railroad Retirement Act of 1974, those particular payments are deductible in any case in which the individual's base period employer contributed to or maintained the pension plan under such Acts.

The limitation specifying that the deduction of a pension payment is required only if the pension is derived under a plan that a base period employer or chargeable employer contributed to or maintained is set forth in clause (i). Whether or not the employer is a chargeable or a base period employer is to be determined under the provisions of the State law. The employer need not be both a base period employer and also chargeable with any benefits payable under the State law. If it is either a base period *or* a chargeable employer that contributed to or maintained the plan, the pension received from the plan must be deducted.

Furthermore, the plan must be the same as that under which the individual has established his right to the pension payments. For example, if an individual at company A retires and collects a pension from A under a particular plan maintained by that employer, but then goes to work for company B who has an entirely different plan, and is subsequently laid off, the pension payment from company A would not be deductible (assuming that A is no longer a base period employer). Conversely, if an individual retires from company C to collect Social Security and then goes to work for company D where the individual is also covered under the Social Security Act, and thereafter the individual is terminated, the Social Security pension would

then be deductible since company D (base period employer) contributed to the same plan as company C.

Clause (ii) also requires in addition that the "services performed for such employer by the individual after the beginning of the base period (or renumeration for such services)" must affect "eligibility for, or increase the amount of, such pension. . . ." This means that if the services performed for the base period or chargeable employer did not affect either eligibility for or the amount of the pension received from the plan maintained or contributed to by a base period or chargeable employer, then the deduction is not required. The phrase "eligible for" pertains to the individual's capability of satisfying the conditions necessary to qualify for the pension. Thus, if the individual qualifies for a pension on the basis of the services performed for the base period or chargeable employer, or if the amount of the pension payment is increased by reason of such services, the pension payment would then be deductible.

The provisions of clause (ii) allowing States to disregard pension payments if the base period employment did not affect eligibility for or increase the amount of the pension, is not applicable, however, to Social Security and Railroad Retirement pensions received by an individual. Clause (ii) states specifically that the conditions contained therein are applicable only "in the case of such a payment not made under the Social Security Act or the Railroad Retirement Act of 1974 (or the corresponding provisions of prior law) . . . ." Consequently, only the provisions in clause (i) apply to Social Security and Railroad Retirement payments, which means that those payments are deductible whenever the individual's base period employer or the chargeable employer contributed to the plans provided under those Acts. It is not necessary that any contribution made on behalf of an individual under those plans or any services performed for such employers affect eligibility for or increase the amount of the individual's pension.

Finally, under new section 3304(a)(15)(B), a State "may provide for limitations on the amount of any such reduction to take into account contributions made by the individual for the pension. . . ." Under this option a State may provide under its law for eliminating any part of the pension payment equivalent to the employee's share of the contributions to the pension fund, or it can provide for elimination of a representative percentage of the pension as determined under the State law. These are only examples of the types of limitations that can be applied under this option and are not intended to cover all of the possible alternatives that may be developed by the States. Although broad latitude is provided to the State in exercising this option, we believe any limitation adopted should be consistent with the basic purpose of the option which is to allow elimination of the individual's share of the contributions to the pension fund in determining the amount of pension to be deducted.

Determinations and review decisions on pension deduction issues should include specific findings on each of the elements involved. The kinds of findings will depend upon the provision adopted by the State. For example, when a Social Security pension is involved, there should be a finding on whether the individual is a primary beneficiary, because only primary insurance benefits are required by the Federal requirement to be deducted. If the provision is limited to pensions maintained or contributed to by a base period employer, the findings should specifically indicate whether a base period employer is involved. When an individual is receiving more than one pension, it should be specifically found whether both meet the deduction requirements. It is also required that determinations and appeal decisions particularly include the method by which a monthly pension is pro-rated to a weekly amount.

A number of States that amended their laws to meet the requirements of section 3304(a)(15) prior to its amendment by P.L. 96-364, also included provisos to render those provisions inoperative if they were not required to be included in the State law as a condition for full tax credit against the tax imposed by the FUTA. Those provisos were included in anticipation of the possible deletion of the Federal pension deduction standard. Since no deletion occurred, a question has arisen as to the impact of the Federal law changes on these provisos. Whether or not those changes will require the States to invoke those provisos is, of course, a matter to be decided by State officials. However, since the prior provisions of section 3304(a)(15) are more restrictive than the revised provisions, a State law which contains the elements of the prior provision would nevertheless continue to be consistent with section 3304(a)(15) as amended. Therefore, it is strongly recommended that States take action or refrain from taking action under such provisos only if it is assured that the State law will meet the requirements of section 3304(a)(15), as amended by P.L. 96-364. The States are urged not to take action which would have the effect of leaving the State without any pension deduction provision because that would immediately place the State in the position of having its law inconsistent with the require-

ments in section 3304(a)(15). In this case, the State should refrain from taking any action until the State legislature has had the opportunity to amend the law to assure consistency with the Federal requirement and thereby avoid any period in which the State law does not meet those requirements.

5. *Amendment to Section 202 of the Federal-State Extended unemployment Compensation Act of 1970.* Section 416 of P.L. 96-364 amended section 202 of the Federal-State Extended Unemployment Compensation Act of 1970 by adding a new subsection (c) which prohibits payment of extended benefits pursuant to an interstate claim if the claim was filed in an agent-State where an extended benefit period was not in effect. However, the first 2 weeks of extended benefits otherwise payable under such a claim must still be paid to an individual since the prohibition applies only to weeks beyond that period.

New subsection (c) of section 202 reads as follows:

"(c)(1) Except as provided in paragraph (2), payment of extended compensation shall not be made to any individual for any week if—

"(A) extended compensation would (but for this subsection) have been payable for such week pursuant to an interstate claim filed in any State under the interstate benefit payment plan, and

"(B) an extended benefit period is not in effect for such week in such State.

"(2) Paragraph (1) shall not apply with respect to the first 2 weeks for which extended compensation is payable (determined without regard to this subsection) pursuant to an interstate claim filed under the interstate benefit payment plan to the individual from the extended compensation account established for the benefit year.

"(3) Section 3304(a)(9)(A) of the Internal Revenue Code of 1954 shall not apply to any denial of compensation required under this subsection."

This is a new Federal requirement that State laws must include in order to satisfy the provisions of section 3304(a)(11), FUTA, requiring payment of extended compensation as provided by the Federal-State Extended Unemployment Compensation Act of 1970. To meet this requirement, a State law must, as specified by Section 416(b), include provisions implementing new subsection (c) of section 202 for any week which begins on and after June 1, 1981, unless the State legislature does not meet in a regular session which begins during 1981 and before April 1, 1981. In that event, the State must implement the requirement for weeks of unemployment beginning on or after June 1, 1982. However, since the amendment is otherwise effective for weeks of unemployment beginning after October 1, 1980, a State has the option to implement the requirement with the week beginning October 5, 1980.

Under the provisions of new subsection (c), when an individual files an interstate-claim for extended compensation under the interstate benefit payment plan such compensation shall be paid for the first two compensable weeks but may not be paid for any additional week unless an extended benefit period is in effect in the agent State for such weeks. If a claimant thereafter moves to another agent State and files an interstate claim under the interstate benefit program, he or she may receive extended compensation only if an extended benefit period is in effect for the week compensation is claimed. If such a period is not in effect, the liable State would be prohibited from paying extended compensation under that claim since the individual will have previously received "the first 2 weeks for which extended compensation is payable" pursuant to an interstate claim filed in a State with an "off" trigger. Since the restriction in new subsection (c) is only applicable to interstate claims filed under the interstate benefit payment plan, it does not apply so as to deny extended compensation to an individual who files a claim classified as either a visiting, transient, or courtesy claim.

When Canada is the agent State, the denial of extended benefits applies to the same extent as for any other claim filed from an agent State that is not in an Extended Benefit Period. Canada is not a party to the Federal-State Extended Unemployment Compensation Act.

The provision in new section 202(c)(3) rendering the requirements in section 3304(a)(9)(A), FUTA, inapplicable to any denial required by these amendments, was included to avoid the conflict that would otherwise have occurred in the Federal law upon enactment of new subsection (c). Paragraph (3) has no other effect.

Procedural instructions for implementing this new requirement and amendments to the current Extended Benefit regulations to reflect these changes will be issued at a later date.

6. *Amendment Relations to Length of Service Needed to Qualify for UCX Benefits.* Section 415 of P.L. 96-364 also amended Title 5 of the United States Code to increase the length of service in the Armed Forces that is required for former members to establish eligibility for unemployment compensation. Under the provisions of subparagraph (A) of section 8521(a)(1) of Title 5, U.S.C., as amended, a service

member must now have 365 days or more of active service in order to be eligible for unemployment compensation instead of the 90-day period formerly required by that section. The amendment applies with respect to any new (first) claims filed for unemployment compensation on or after October 1, 1980. Instructions for implementing this change are being provided in a separate document.

The attachment contains draft language which can be used by States to implement the new pension deduction standard and the amendment providing for the cessation of extended benefits in the prescribed circumstances discussed earlier.

7. *UIPL No. 24-80.* This letter supplements UIPL No. 24-80 dealing with the Federal pension deduction standard prior to amendment by P.L. 96-364, except that in those respects in which the two letters are inconsistent, this letter supersedes UIPL No. 24-80.

8. *Action Required.* SESAs are requested to:

a. Take necessary action to assure by change in the State law that pension payments received by claimants are deductible under the State law as required by section 3304(a)(15), FUTA, as amended, and that extended compensation is denied in the circumstances required by new subsection (c) of section 202 of the Federal-State Extended Unemployment Compensation Act of 1970 as amended; and,

b. Inform the regional offices of the necessity for action or no action invoking provisos included in existing pension deduction provisions which, when invoked, invalidate such provisions, and indicate what other action will be taken to assure that the State law continues to be applied consistent with the requirements of section 3304(a)(15), FUTA, if those provisos are invoked.

9. *Inquiries.* Inquiries should be directed to your regional office.

Draft Language to Implement Section 3304(a)(15), FUTA as Amended by P.L. 96-364—Federal Pension Deduction Standard

The following draft provision provides for reduction of pensions as required by the amendments to section 3304(a) (15), and includes two options for adjusting the pension to take into account contributions made by the individual.

"For any week with respect to which an individual is receiving a pension (which shall include a governmental or other pension, retirement or retired pay, annuity, or any other similar periodic payment) under a plan maintained or contributed to by a base period or chargeable employer (as determined under applicable law), the weekly benefit amount payable to such individual for such week shall be reduced (but not below zero),

(a) by the pro-rated weekly amount of the pension after deduction of that portion of the pension that is directly attributable to the percentage of the contributions made to the plan by such individual; or

(Alternative to subsection (a))

(a) by one-half the pro-rated weekly amount of the pension if at least half but less than 100 percent of the contributions to the plan were provided by such individual; or

(b) by the entire pro-rated weekly amount of the pension if subsection (a) or subsection (c) does not apply; or

(c) by no part of the pension if the entire contributions to the plan were provided by such individual, or by the individual and an employer (or any other person or organization) who is not a base period or chargeable employer (as determined under applicable law).

(d) No reduction shall be made under this section by reason of the receipt of a pension if the services performed by the individual during the base period or remuneration received for such services) for such employer did not affect the individual's eligibility for, or increase the amount of, such pension, retirement or retired pay, annuity, or similar payment. The conditions specified by this subsection shall not apply to pension paid under the Social Security Act or the Railroad Retirement Act of 1974 (or the corresponding provisions of prior law). Payments made under such Acts shall be treated solely in the manner specified by subsections (a), (b) and (c) of this section."

The provisions of the alternative to subsection (a) are designed to facilitate administration of this option by providing a practical means of adjustment the deduction to take into account the individual's contribution to the pension fund without extensive calculations.

Draft Language to Implement new section 202(c) of the Federal-State Extended Unemployment Compensation Act of 1970 as amended by P.L. 96-364—Cessation of extended benefits paid under an interstate claim in a State when no extended benefit period is in effect.

Following the enactment of P.L. 91-373, which established the permanent Federal-State extended benefits program, we issued the *Draft Legislation to Implement and Employment Security Amendments of 1970—H.R. 14705.* Each State received a copy of that document for use in implementing P.L. 91-373. A section was included on pages 119-128 setting forth recommended language to implement the extended benefit program. The following draft language is intended to be incorporated into the framework of that section and should be inserted as new subsection (g).

"(g)(1) Cessation of extended benefits when paid under an interstate claim in a State where extended benefits for any week if:

"(A) extended benefits are payable for such week pursuant to an interstate claim filed in any State under the interstate benefit payment plan, and

"(B) no extended benefit period is an effect for such week in such State.

"(2) Paragraph (1) shall not apply with respect to the first 2 weeks for which extended benefits are payable (determined without regard to this subsection) pursuant to an interstate claim filed under the interstate benefit payment plan to the individual from the extended benefit account established for the individual with respect to the benefit year."

U.S. DEPARTMENT OF LABOR,
MANPOWER ADMINISTRATION,
Washington, DC, June 9, 1981.

Directive: Unemployment Insurance Program Letter No. 7-81, Change 1.
To: All State Employment Security Agencies.
From: T. James Walker, Administrator, Administration and Management.
Subject: Interpretation of Provisions in Section 3304(a)(15)(B), FUTA, Permitting State laws to Take into Account Employee Contributions to Pension Plans Under Pension Reduction Requirement.

1. *Purpose.* To inform SESAs of the interpretation of subparagraph (B) of section 3304(a)(15) of the Federal Unemployment Tax Act giving States the option of limiting by law the amount to be deducted from an individual's weekly benefit entitlement by reason of receipt of a pension payment based on the previous work of the individual, by taking into account the individual's contributions for the pension.

2. *References.* Section 414, P.L. 96-364 (H.R. 3904); UIPL 20-80 and UIPL 7-81.

3. *Background.* UIPL 7-81, issued November 7, 1980, contained an explanation of the amendments to section 3304(a)(15) made by section 414 of P.L. 96-364. With reference to subparagraph (B), relating to the option of take into account employee contributions to pension plans, it was stated on page 5 of UIPL 7-81 that a State may eliminate from the pension amount to be deducted from a benefit amount payment "any part of the pension payment equivalent to the employee's share of the contributions to the pension fund" or "a representative percentage of the pension," as examples of acceptable types of limitations on pension reduction. In UIPL 7-81 it was further stated that subparagraph (B) gave States "broad latitude" in exercising the option; however, it also contained an expression of the view that any limitation adopted by a State "should be consistent with the basic purpose of the option which is to allow elimination of the individual's share of the contributions to the pension fund in determining the amount of pension to be deducted." In UIPL 24-80, a similar view had been expressed earlier with respect to two bills in Congress late in 1979 and early in 1980 to amend the pension reduction requirement in language identical to subparagraph (B). The view was expressed on page 5 of UIPL 24-80 that State laws "can provide for deduction of a representative percentage of the pension *as determined under the State law.*" (Emphasis added). A more recent decision on the meaning of subparagraph (B) necessitates changes on page 5 of UIPL 7-81, and supersedes the sentence on page 5 of UIPL 24-80 from which the above quote is taken.

Subparagraph (B) is an optional exception to the general rule which requires the deduction of pensions from unemployment benefits dollar for dollar, and is, therefore, to be narrowly construed to effectuate its purpose. Its purpose, as reflected in its legislative history, is to reduce the pension offset amount by an amount "consistent with" or "related to" contributions toward the pension made by the worker. The "flexibility" given to the States, mentioned in the legislative history, refers to the amendments to section 3304(a)(15) which limited the deduction requirement (1) to pension payments made under a plan maintained or contributed to by a base period or chargeable employer, in contrast to pension payments based upon the previous work of the individual in his work history; and (2) to pension payments where eligibility for the pension or the amount of the pension is affected by work performed after the beginning of the base period (except social security and railroad retirement

pensions); and which further gave to the States the option to take into account by their laws contributions made by individuals for their pensions.

Reduction of the pension offset amount is "consistent with" the worker's contributions when, as explained by Congressman Brodhead, one of the conferees on the bill, a State limits "the offset to one-half the amount of the social security pension received by an individual who qualifies for unemployment benefits." Congressional Record, page H9180, September 19, 1980. A similar statement was made and example given by Congressman Corman, Chairman of the Subcommittee on Public Assistance and Unemployment Compensation of the House Ways and Means Committee, which had jurisdiction of the bill, with respect to a provision identical to subparagraph (B) in H.R. 5507, Congressional Record page H623, February 6, 1980. A similar example was given by Senator Bradley, one of two co-sponsors of the amendment in H.R. 3904. Congressional Record, page S12901, September 18, 1980. States would be permitted by the option to reduce the offset amount by "that part of a pension which reflects a return of employee contributions." Senate Report No. 96-472, page 3, December 10, 1979. States would be permitted to apply the reduction "in a manner which provides a reasonable adjustment" to take into account an employee's contributions to the pension plan. *Ibid*, page 12.

4. *Interpretation of Subparagraph (B).* It is clear from this legislative history that it was the intent of Congress to allow States to take into account employee contributions for a pension in an amount up to the proportion by which the employee contributed to the pension plan from which the payments are received. Subparagraph (B) is construed, in accordance with its language and related legislative history, as permitting a State to provide in its law for limiting the pension deduction otherwise required under subparagraph (A) of section 3304(a)(15) by reducing the offset amount by an amount that is the ratio of the employee's contributions to total contributions to the plan or system by both the employee and his or her employer(s). From the statutory language and the examples given in the legislative history, it is clear that the amount of the pension that may be disregarded may be no greater than such ratio of the employee's contributions.

In the case of pension plans or systems where the employee makes all of the contributions to the principal forming the basis of the pension, none of the pension would be deductible. This is so because if a base period or chargeable employer had not made any financial contribution to the principal of the pension for the employee, the amount received as a pension would not fall within the scope of subparagraph (A)(i) of section 3304(a)(15), and the provisions of subparagraph (B) would not be reached.

5. *Determination of Proportion of Employee Contributions.* It will be necessary in any State law provision that is consistent with subparagraph (B) to provide for reasonably based determinations of the proportion of employee contributions to a pension plan or system, so that the amount of any pension to be disregarded for benefit reduction purposes will not exceed the ratio of the employee's contributions to the total contributions to the principal of the plan or system by the employee and his or her employer(s). Because of the different types of pension plans and systems that exist, and the specific data that may be readily available to SESAs for making determinations of the ratios of employee contributions, it is recommended that the State laws confer broad authority for making reasonably based determinations.

Depending upon the type of plan or system and specific data available, the following rules apply:

a. *General rule, where proportion of employee contributions to total contributions is known.*

(1) Add values of total employee and employer contributions to find amount of total contributions.

(2) Divide amount of total employee contributions by total of all contributions to find proportion of contributions paid by employee.

(3) Multiply the ratio representing employee contributions by the amount of the employee's weekly pension to find amount of pension attributable to employee contributions.

Example: X, over his working life, contributed $2500 to his employer's (ABC's) defined contribution pension plan. ABC also contributed $7500 to the plan on X's behalf. When X retires, he will receive $100 a week as a pension benefit. The portion of this pension attributable to X's contributions is calculated as follows:

Total amounts contributed on X's behalf: $10,000 ($2500 + $7500).

Ratio of contributions attributable to X: 25% ($2500/$10,000).

Weekly pension amount attributable to X's contributions: $25 (25% × $100).

b. *Rule where proportions of both employee and employer contributions are known.*

Where the ratio of employee and employer contributions have been fixed at specified proportions in the plan or system over a substantial period of time preceding the employee's retirement, such ratio can be adopted without further determination for the purposes of a subparagraph (B) type of provision. For example, under the system for primary social security and Federal civil service retirement, the employee contributions are set at 50 percent, and it is not necessary to inquire any further.

c. *Rule where amount of employer contributions is not known.*

In situations where it is not possible to determine exactly the aggregate amount of employer contributions paid to a pension plan on an individual's behalf (as often is the case where the employee participates in a defined benefit plan), any method of computation that reasonably reflects or approximates the proportion of contributions made by the employee will be acceptable.

6. *Scope of Letter.* The interpretations contained in this letter apply solely to section 3304(a)(15), FUTA, and have no application to any other Federal statute.

7. *Revised Page 5.* This letter transmits a change to page 5 of UIPL 7-81.

8. *Action Required.* SESAs are requested to substitute the attached page 5 for the one contained in UIPL 7-81, November 7, 1980, and retain this Change 1 to UIPL 7-81. The substituted text is in the first paragraph. There are, in addition, revisions in the second paragraph for consistency with the changes in the first paragraph.

The interpretations contained in this letter are effective for the certification period beginning November 1, 1980. SESAs should apply these interpretations as soon as possible after receipt of this letter.

9. *Inquiries.* Questions should be directed to the appropriate Regional Office.

Attachment.

U.S. DEPARTMENT OF LABOR,
EMPLOYMENT AND TRAINING ADMINISTRATION,
Washington, DC, March 11, 1983.

Directive: Unemployment Insurance Program Letter No. 7-81, Change 2.
To: All State Employment Security Agencies.
From: Royal Dellinger, Administrator for Regional Management.
Subject: Revocation of Change 1 to UIPL 7-81 and Reinstatement of Original Provisions of UIPL 7-81.

1. *Purpose.* To announce reinstatement of the interpretation of subparagraph (B) of Section 3304(a)(15), FUTA, set forth in UIPL 7-81 issued on November 7, 1980.

2. *References.* UIPL 7-81 and Change 1.

3. *Background.* Under subparagraph (B) of Section 3304(a)(15), FUTA, a State law "may provide for limitations on the amount of any such reduction [of unemployment benefits otherwise required under subparagraph (A)] to take into account contributions made by the individual for the pension . . ." Basic UIPL 7-81 stated that a State may, under this option, provide by law for eliminating any part of the pension payment "equivalent to the employee's share of the contributions to the pension fund" or for eliminating "a representative percentage of the pension as determined under the State Law." It further stated that, although "broad latitude" is provided to a State, "any limitation adopted should be consistent with the basic purpose of the option which is to allow elimination of the individual's share of the contributions to the pension fund in determining the amount of pension to be deducted."

Change 1 to UIPL 7-81 superseded the foregoing statements and prescribed what the U.S. Court of Appeals, District of Columbia Circuit, later, in a suit challenging the revised interpretation of subparagraph (B), described in part as rulemaking subject to the public notice and opportunity for comment requirements of the Federal Administrative Procedure Act. As a result, there remains in effect an injunction against enforcement of the requirements of subparagraph (B) of Section 3304(a)(15) as set forth in section 5 of Change 1.

To resolve this matter and overcome the injunction, the Department is reinstating the position taken in basic UIPL 7-81. Therefore, States may provide for taking into account employee contributions to pension plans to the extent provided in the State laws. It will no longer be required that the amount of employee contributions taken into account not exceed the proportion of an employee's contribution to the pension plan. States are encouraged, nevertheless, to carry out the intent of Congress in enacting subparagraph (B) by not giving greater effect to employee contributions than the proportion of employee contributions bears to total contributions to the pension plan.

4. *Decision.* The position set forth in the original UIPL 7-81 is hereby reinstated. Change 1 to UIPL 7-81 is hereby revoked.

5. *Action Required.* Administrators are requested to delete Change 1 to UIPL 7-81 and provide the above decision to appropriate staff.
6. *Inquiries.* Questions should be directed to the appropriate regional office.

TABLE 410B.—EFFECT OF PENSIONS ON WEEKLY BENEFIT AMOUNT

State	Deductions—		Excludes from deductions—	
	All pensions All ER's (6 States)	All pensions BP ER (47 States)	EE contributions to pensions	Pensions not affected by BP work
(1)	(2)	(3)	(4)	(5)
Alabama		X	X	X
Alaska		X	X	X
Arizona		X	X	X
Arkansas	X [1]			
California		X	X	X
Colorado		X		
Connecticut		X	X	X
Delaware	X			
District of Columbia	X			
Florida		X	X	
Georgia		X	X	X
Hawaii		X	X	X
Idaho		X [2]	X [2]	
Illinois		X	X	
Indiana		X		
Iowa		X	X	X
Kansas		X	X	X
Kentucky		X	X	X
Louisiana		X		
Maine		X	X	X
Maryland		X	X	
Massachusetts		X	X	X
Michigan		X	X	
Minnesota		X	X	
Mississippi		X		
Missouri		X		X
Montana		X	X	X
Nebraska		X	X [2]	
Nevada		X	X	X
New Hampshire		X		X
New Jersey		X	X	
New Mexico		X	X	
New York		X	X	X
North Carolina		X		
North Dakota		X	X	
Ohio		X		
Oklahoma		X		X
Oregon		X		
Pennsylvania	X			
Puerto Rico		X	X	X
Rhode Island		X		
South Carolina		X	X	
South Dakota		X		
Tennessee		X	X	X
Texas		X		
Utah		X		
Vermont		X	X	X
Virginia	X			
Virgin Islands	X			
Washington		X	X	X
West Virginia		X		
Wisconsin		X	X	X

TABLE 410B.—EFFECT OF PENSIONS ON WEEKLY BENEFIT AMOUNT—Continued

State	Deductions—		Excludes from deductions—	
	All pensions All ER's (6 States)	All pensions BP ER (47 States)	EE contributions to pensions	Pensions not affected by BP work
(1)	(2)	(3)	(4)	(5)
Wyoming		X		

[1] Excludes military retirement pensions based on work prior to the individual's base period.
[2] By regulation.

* * * * * * *

In summary, support for our motion to recommit will produce a bill that serves the best interests of employees, employers and the Federal Treasury. This responsible alternative deserves strong support from all Members.

BARBER B. CONABLE, Jr.
JOHN J. DUNCAN.
BILL ARCHER.
BILL FRENZEL.
RICHARD T. SCHULZE.
BILL GRADISON.
JOHN H. ROUSSELOT.
W. HENSON MOORE.
JAMES MARTIN.

HOUSE CONFERENCE REPORT NO. 98-1343

* * * * * * *

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JOINT EXPLANATORY STATEMENT OF THE COMMITTEE OF CONFERENCE

The managers on the part of the House and the Senate at the conference on the disagreeing votes of the two Houses on the amendments of the Senate to the amendment of the House to the amendment of the Senate to the bill (H.R. 3904) to amend the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1954 to improve retirement income security under private multiemployer pension plans by strengthening the funding requirements for those plans, to authorize plan preservation measures for financially troubled multiemployer pension plans, and to revise the manner in which the pension plan termination insurance provisions apply to multiemployer plans, and for other purposes, submit the following joint statement to the House and the Senate in explanation of the effect of the action agreed upon by the managers and recommended in the accompanying conference report:

TREATMENT OF CERTAIN RETIREMENT BENEFITS

The House amendment to the Senate amendment to the bill provides that the pension offset requirement of existing unemployment law would only apply to a pension which is paid under a plan maintained or contributed to by a base period employer and which is increased by reason of services performed after the beginning of the base period. The House amendment also provides that the pension offset requirement would not apply in the case of social security benefits and railroad retirement benefits. The House amendment also authorizes the State to make limitations in the amount of the pension offset to take into account contributions made by the individual for the retirement benefit.

The Senate amendment numbered 1 to the House amendment to the Senate amendment to the bill provides that the pension offset requirement of existing law would only apply to pensions paid under plans maintained or contributed to by base period or chargeable employers. The Senate amendment also allows States to make limitations to take into account employee contributions identical to that contained in the Hosue amendment.

The conference agreement generally follows the Senate amendment.

PREEMPTION

The House amendment to the Senate amendment to the bill provides no exemption from the preemption provision of section 514 of the Employee Retirement Income Security Act of 1974 ("ERISA").

The Senate amendments numbered 2 and 3 to the House amendment to the Senate amendment to the bill provide an exemption from section 514(a) of ERISA for the Hawaii Prepaid Health Care Law as in

[page 4]

effect on January 1, 1979, and require a study by the Secretary of Labor on the feasibility of extending the exemption to other State health care laws. The Secretary of Labor is to report to the Congress on the study within two years after the date of enactment.

The Senate recedes to the Hosue position. In adopting the House position, the Conferees do not imply a position as to the effect of section 514 of ERISA on the Hawaii Prepaid Health Care Law or other similar State laws, or as to correctness of any court decisions in this area.

For Senate amendment No. 1:
AL ULLMAN,
JAMES C. CORMAN,
CHARLES RANGEL,
WILLIAM M. BRODHEAD,
BARBER B. CONABLE. Jr.,
For Senate amendment Nos. 2 and 3.
BILL FRENZEL,
CARL D. PERKINS,
FRANK THOMPSON, Jr.,
JOHN BRADEMAS,
WILLIAM CLAY,
JOHN M. ASHBROOK,
JOHN N. ERLENBORN,
Managers on the Part of the House.
HARRISON A. WILLIAMS, Jr.,
JENNINGS RANDOLPH,
HOWARD M. METZENBAUM,
DICK SCHWEIKER,
JACOB K. JAVITS,
RUSSELL B. LONG,
SPARK M. MATSUNAGA,
DAVID L. BOREN,
ROBERT DOLE,
JOHN H. CHAFEE,
Managers on the Part of the Senate.

DECISION OF COMMISSION

IN THE MATTER OF PATRICK TEDESCO S. S. #158-34-0055 v. CITY OF NEWPORT NEWS, NEWPORT NEWS, VA.

Date of Appeal To Commission: September 22, 1983.
Date of Hearing: November 7, 1983.
Place: Richmond, Virginia.
Decision No.: 22109-C.
Date of Decision: November 7, 1983.
Date of Mailing: November 18, 1983.
Final Date to File Appeal with Circuit Court: December 8, 1983.

This is a matter before the Commission on appeal by the claimant from the decision of the Appeals Examiner (No. UI-83-8078), mailed September 2, 1983.

APPEARANCES

Claimant

ISSUE

Is the claimant receiving a governmental or other pension, retirement or retired pay, annuity or any other similar periodic payment based upon the previous work of

such individual as provided in Section 60.1-48.1 of the Code of Virginia (1950), as amended?

FINDINGS OF ACT

The claimant went on active duty with the United States Army on August 18, 1968. On September 26, 1969, the claimant suffered a 60% disability when he sustained wounds as a result of stepping on a land mine in Vietnam while on active duty. On November 10, 1970, the claimant was honorably discharged from the Army and placed on Physical Disability Retirement. This status was of a temporary basis until he was determined to be permanently disabled effective January 31, 1973. Accordingly, the claimant was retired from the Army on February 1, 1973, as a captain under Title 10, United States Code Section 1201 which relates to disability retirement. The claimant's permanent disability was determined by the Veteran's Administration to be 50% and his retired pay is based upon his disability. He receives disability retirement benefits in the total amount of $944.33 per month.

The claimant had filed a claim for unemployment compensation benefits effective July 3, 1983, giving the City of Newport News as his most recent thirty-day employing unit. He continued to claim benefits through October 20, 1983.

OPINION

Section 60.1-48.1 of the Virginia Unemployment Compensation Act provides as follows:

"The weekly benefit amount payable to an individual for any week begins after September 30, 1979, and which begins in a period with respect to which such individual is receiving a governmental or other pension, retirement or retired pay, annuity, or any other similar periodic payment which is based on the previous work of such individual, including payments received by such individual in accordance with Section 65.1-54 or 65.1-55 of the Code of Virginia, shall be reduced (but not below zero) by an amount equal to the amount of such pension, retirement, or retired pay, annuity, or other payments, which is reasonably attributable to such week." (Emphasis added)

Section 60.1-48.1 is based, in part upon Section 3304(a)(15) of the United States Code. That statute provides, in part:

"The amount of compensation payable to an individual for any weeks . . which begins in a period with respect to which such individual is receiving a governmental or other pension, retirement or retired pay, annuity, or any other similar periodic payment which is based on the previous work of such individual shall be reduced (but not below zero) by an amount equal to the amount of such pension, retirement or retired pay, annuity, or other payment, which is reasonably attributable to such weeks. . . ."

As a condition precedent to federal funding of the administration of the Unemployment Insurance Program for Virginia, Section 60.1-48.1 must be in substantial compliance with its enabling federal legislation, as administered by the Secretary of the United States Department of Labor.

On March 17, 1980, the United States Department of Labor issued Unemployment Insurance Program Letter 24-80 which states that any reduction in unemployment benefits necessitated by receipt or retirement pay, such pay must be based on the previous work of such individual. Therefore, under the federal legislation, and the Virginia statute, which was enacted to be conforming to the federal legislation, the reduction of unemployment benefits by the amount of the pension must be a pension based on the previous work of such individual.

The undisputed evidence in the record of the case is that the claimant's disability pay is not based upon his previous work i.e. his longevity, but rather the extent of disability occasioned by this injuries he incurred on active duty in the United States Army. Since the claimant's pension is not based on his previous work, it would not come within those types of pensions specified in Section 60.1-48.1 of the Code of Virginia so as to reduce his entitlement to unemployment compensation benefits.

DECISION

The decision of the Appeals Examiner is hereby reversed. It is held that the claimant's weekly benefit amount should not have been reduced by the amount of his disability retirement.

The Claims Deputy is directed to review the claim and recompute the claimant's entitlement to benefits based on the weekly benefit amount of $138 without a reduction in any amount for this disability retirement benefits.

KENNETH H. TAYLOR,
Special Examiner.

Chairman FORD. Thank you, Mr. Wanamaker.

Now we will hear from Ms. Linda Jones.

STATEMENT OF LINDA R. WOLF JONES, SENIOR POLICY ANALYST, INCOME SECURITY, COMMUNITY SERVICE SOCIETY OF NEW YORK

Ms. JONES. I am Linda Wolf Jones, senior policy analyst for Income Security of the Community Service Society of New York. The Community Service Society is a nonprofit, nonsectarian social agency in New York City which for well over a century has sought to improve the living conditions of the poor.

I shall, as the others have done, summarize my statement and ask that the full statement be incorporated into the record.

Chairman FORD. It will be made a part of the record.

Ms. JONES. Thank you.

I never thought that the first thing I would do upon coming and sitting up here would be to agree with the chamber of commerce on something, but I would like to note that the gentleman from the chamber of commerce said that those who have exhausted their unemployment compensation benefits should be transferred to other public assistance programs.

He and I may differ on how many weeks unemployment compensation benefits should go for, but we would thoroughly agree, or I would thoroughly agree with him, that there ought to be other appropriate public assistance programs for people who have indeed exhausted their UC benefits.

Chairman FORD. Ms. Jones, I too would agree with that. But the point I was trying to make to the chamber of commerce was that, yes, that is good rhetoric before the committee, but when we bring legislation to strengthen some of these programs in a time of need, when unemployment is 7, 8, or 9 percentage points, the chamber of commerce is the same organization that will take those appropriations on and those amendments on and oppose them as well.

And they are opposed to not only the extension of the Federal Supplemental Program itself or any other reform package that we might report out, but they are also opposed to any additional funds being appropriated to these public assistance, welfare, or whatever agencies they might be that we appropriate funds to.

Ms. JONES. I know that, and I also deplore it. I wish that they meant what they perhaps inadvertently said in that statement.

Our concern with respect to unemployment, as it is with respect to all of the programs which we monitor, is its effect on the poor and the disadvantaged. We believe there are a number of ways in which the system could be changed to provide more income security to people, especially low income people who are without work, and without compromising the system's fundamental purpose or structure.

As many of the other witnesses here today have stated, we believe that the goal of providing temporary partial wage replace-

ment to involuntarily unemployed workers with a recent work history is far from being adequately met when less than 50 percent of the unemployed receive benefits on the average in a given year.

Program goals which at worst are crafted to exclude more than 50 percent of potential beneficiaries and at best do nothing to encourage their inclusion could benefit from revision or restatement. We believe that the Federal Government has a strong interest in assuring that unemployment compensation is available within reasonable limits to people who are validly unemployed and unable to find new work.

There are several specific changes which we would like to see incorporated into UC law and practice, which I will just very quickly summarize. H.R. 3863, introduced last year by Representative Stark and others, recognizes the inadequacy of the statistical measures used for computing both total unemployment and insured unemployment. A total unemployment measure should show the true size of the nonworking population who would be employed if jobs were available, and that includes the millions of discouraged workers out there who are not now included, as we all know here.

A large gap between the total unemployment rate and the insured unemployment rate should be a warning that the system is not providing income protection to the population in need and that remedies are called for to reduce the size of that gap.

H.R. 3863 also recognizes the irrationality of making people continuously go through a demoralizing activity of job search in depressed labor markets where there is virtually no chance of reemployment. It gives States the flexibility to waive mandatory job search in depressed labor markets for purposes of extended benefits.

We believe that under normal circumstances employable but unemployed people should be seeking jobs. Nevertheless, we would suggest that mandatory job search requirements under unreasonable circumstances ought to be waived for all benefit programs, including the basic UC Program.

Finally, the refusal by States to recognize and accept the validity of less than full-time availability for work in determining eligibility for benefits wreaks a hardship on working mothers and others whose schedules do not allow them to work full-time.

This is not an issue that has been brought up today. We believe that part-time workers ought to be considered as meeting the available for work criterion if they have good reason for limiting their availability to certain times and if it can be documented that a significant job market exists which could utilize their services during those times.

Although this is essentially a State issue for the first tier, regular benefits, the denial of eligibility at that level excludes the claimants from receiving any extended benefits as well. The Federal Government can and should encourage States to allow workers with part-time availability to participate in their basic UC programs so long as there is good reason for the limitation on days and hours, and so long as an appropriate job market does exist for the services offered.

In summary, we support changes in the UC system to extend its income protections to more of the unemployed and to the low

income unemployed in particular. Specifically, today, we are speaking in favor of expanding the definition of unemployment and narrowing the gap between the TUR and the IUR, waiving work search requirements when there is little chance of finding employment due to labor market conditions, and recognizing the validity of part-time availability for work under certain circumstances, and with appropriate safeguards against program abuse.

Thank you, on behalf of the Community Service Society, for allowing me to testify.

[The prepared statement follows:]

STATEMENT OF LINDA R. WOLF JONES, SENIOR POLICY ANALYST—INCOME SECURITY, COMMUNITY SERVICE SOCIETY OF NEW YORK

I am Linda R. Wolf Jones, Senior Policy Analyst for Income Security at the Community Service Society of New York. The Community Service Society is a nonprofit, nonsectarian social agency in New York City which, for well over a century, has sought to improve the living conditions of the poor. To that end, we conduct direct service programs, provide technical assistance to community-based groups, and seek to shape public policy through research, analysis, and advocacy activities. We are grateful for this opportunity to testify before your subcommittee.

Our particular concern with respect to the Unemployment Compensation (UC) system, as with all programs which we monitor, is its effect on the poor. We know, of course, that the UC program components—the Basic, Extended Benefits (EB) and Federal Supplementary Compensation (FSC) programs—provide income protection as social insurance rather than as public assistance and that they are not targeted primarily on a poverty population. Nevertheless, poverty and UC are far from mutually exclusive, even under the current system. Some UC recipient households are poor from the start and a considerable number of others become poor as benefits and savings are exhausted over time. We believe there are a number of ways in which the UC system could be changed to provide more income security to people, especially low income people, who are without work—both those currently covered and some of those currently left out of the UC programs—without compromising the system's fundamental purpose or structure.

The two purposes of the UC system are to provide temporary, partial wage replacement to involuntarily unemployed workers with a recent work history and to help stabilize the economy during recessions. I shall not address myself to the second of those objectives, but I would like to make a few comments about the first.

Although about 90 percent of the employed people in the United States are in jobs covered by UC, including about 97 percent of all wage and salary workers, most people who become unemployed are ineligible to collect program benefits. Eligibility is determined and interpreted according to state laws. There is, however, good reason for federal oversight and concern. The fact that you are holding this hearing recognizes the considerable federal involvement, both direct and indirect, in the UC system.

First of all, the three UC components are linked. Although the regular benefits are state-funded and initial eligibility for them is determined by state criteria, subsequent eligibility for federally-funded extended benefits—currently, either 50 percent federally-funded EB benefits or 100 percent federally-funded FSC benefits—is contingent upon that initial eligibility determination. So long as the system is structured in that manner, initial eligibility criteria which arbitrarily shut people out of the program deserve federal attention.

Second, even the first tier basic program was created by federal law and allows employers' state payments to be credited against their federal obligations only where there is an approved state program in effect. States make use of federal loans when their own program funds are inadequate to meet the benefit payments due. Finally, unemployed people who are deemed ineligible for UC, representing more than 50 percent of all unemployed people, need to turn elsewhere for income support, resulting in increased costs in other federal or federally-assisted programs.

We believe that the goal of providing temporary, partial wage replacement to involuntarily unemployed workers with a recent work history is far from being adequately met when less than 50 percent of the unemployed receive benefits, on the average, in a given year. Insured unemployment as a percent of total unemployment was 41 percent in 1981, 45 percent in 1982, and 44 percent last year. We fur-

ther believe that the goal itself is not well-suited to carrying out the system's fundamental social purpose.

The Bureau of Labor Statistics subdivides the unemployed into four categories: job losers, job leavers, labor force reentrants and new entrants. Under the terms of the goal as stated above, three of the four main reasons for unemployment leave the individual ineligible for the UC program: job leavers usually are not involuntarily unemployed and labor force reentrants and new entrants do not have a recent work history. Only job losers are likely to be program eligible in any significant numbers. Even so, job losers represented 51.6, 58.7 and 58.4 percent of the unemployed in the years 1981–83, respectively. Exhaustion of benefits and other rigid, sometimes arbitrary restrictions on eligibility must be presumend responsible for the more than 10 percent gap between the percentage of job losers among the unemployed and the percentage of benefit recipients among the unemployed in each of those years. Eligibility may be restricted for reasons dealing with the amount of recent work and earnings, availability for employment, and/or willingness to seek and accept employment.

In the UC system, we find ourselves faced with a crazy quilt pattern where long-term unemployed are no longer counted as unemployed and where benefits are denied for failure to seek work where no work exists. We believe that the restrictions on eligibility leading to the gap between the total unemployment rates and the insured unemployment rate are a valid federal concern. We believe that the gap between the number counted as unemployed and the number of employable individuals who are in fact not working is also a matter for federal concern. As you know, large numbers of discouraged workers do not even appear in the unemployment statistics.

The program goal has been stated as temporary, partial wage replacement to involuntarily unemployed workers with a recent work history. The purpose of social insurance programs generally is to provide income protection to a broad, rather than narrow, spectrum of the population. Program goals which, at worst, are crafted to exclude more than 50 percent of potential beneficiaries and, at best, do nothing to encourage their inclusion, could benefit from revision and restatement. We believe that the federal government has an interest in assuring that unemployment compensation is in fact available, within reasonable limits, to people who are validly unemployed and unable to find new work.

There are several specific changes which we would like to see incorporated into UC law and practice. Expansion of the definition of unemployment, flexibility with respect to work search in depressed labor markets, and recognition of the validity of part-time work within the available-for-work eligibility criterion would make the system more accessible to people who do not fit the traditional pattern of long spells of full-time employment interrupted by brief intermittent layoffs or between-job periods. Each of these could be effected or encouraged in both basic and extended programs by federal action.

H.R. 3863, the unemployment compensation bill introduced last year by Representive Stark and others, recognizes the inadequacy of the statistical measures of total unemployment and insured unemployment currently in use.

A total unemployment measure should show the true size of the nonworking population who would be employed if jobs were available. A large gap between the total unemployment rate and the insured unemployment rate should be a warning that the system is not providing income protection to the population in need and that remedies are called for to reduce the size of that gap.

H.R. 3863 also recognizes the irrationality of making people continuously go through the depressing and demoralizing activity of job search in depressed labor markets where there is virtually no chance of employment. We certainly believe that, under normal circumstances, employable but unemployed people should be seeking jobs. It is preposterous, however, to condition benefits on engaging in an activity which is demoralizing, wastes resources and has no reasonable chance of success. In depressed labor market areas with few employers, it is also unpleasant for the employers. They wind up being the constant object of multiple, required job searches, even though all parties know that there are no job openings. H.R. 3863 gives states the flexibility to waive mandatory job search in depressed labor market areas for purposes of extended benefits. We would suggest that mandatory job search requirements under unreasonable circumstances ought to be waived for all benefit programs, including the basic UC program.

Finally, the refusal by states to recognize and accept the validity of less than full-time availability for work in determining eligibility for benefits wreaks a hardship on working mothers and others whose schedules do not allow them to work full-time. We believe that part-time workers ought to be considered as meeting the

available-for-work criterion if they have good reason for limiting their availability to certain times and it can be documented that a significant job market exists which could utilize their services during those times. Although this is essentially a state issue for first tier regular benefits, denial of eligibility at that level excludes the claimant from receiving any extended benefits as well. The federal government can and should encourage states to allow workers with part-time availability to participate in their basic UC programs, so long as there is good reason for the limitation on availability and an appropriate job market for the services offered.

In summary, we support changes in the UC system to extend its income protections to more of the unemployed and to low income unemployed in particular. Specifically, we favor expanding the definition of unemployment and narrowing the gap between total unemployment and insured unemployment, waiving work search requirements when there is little chance of finding employment due to labor market conditions, and recognizing the validity of part-time availability for work under certain circumstances and with appropriate safeguards against program abuse.

I thank you for giving me this opportunity to testify before you today on behalf of the Community Service Society of New York. We look forward to continuing to work with you on unemployment compensation issues and would be glad to answer any questions you might have.

Chairman FORD. Thank you very much.

At this time I would like to recognize one of our former colleagues, Mr. Sarasin. We would like to apologize, not only to you but to the entire panel, for going until 5:30 in the afternoon and having witnesses waiting and here with us all day long.

But we are delighted to have you back and we are delighted to have you as a witness today.

STATEMENT OF RONALD A. SARASIN, DIRECTOR OF GOVERNMENT RELATIONS, NATIONAL RESTAURANT ASSOCIATION

Mr. SARASIN. It is good to see you again and a pleasure to be back, even on this side of the microphone.

As you are aware, my name is Ron Sarasin. I am the director of Government Relations of the National Restaurant Association, and we have an issue of concern to us in the restaurant business, a very narrow issue of concern, obviously, but one that affects us rather greatly and we believe impacts upon us unfairly.

Our association, incidentally, is a nonprofit association. We have 10,000 members across the country, and we represent over 100,000 food service outlets.

The industry employs 8 million people. We represent 5 percent of the gross national product. We are obviously the largest part of the service sector of our economy, and when things happen to hurt us it hurts not only us as employers, but many of our employees and a big chunk of the economy as well.

The item of interest to us was enacted in July 1984 as an amendment and it became part of the tax bill as passed and signed. For the first time, employers in only the restaurant business will be required to pay FUTA taxes on all tipped income of their employees. The distinction here, of course, is that we are talking about tipped income.

These are not wages paid by the employer to the employee, and the employer has no control over those dollars. All he does is help by providing the environment which helps to create those dollars for the employee.

The reason we are concerned is that, although we are a high turnover industry, we are not an industry that draws down any significant amount from the unemployment compensation funds of

the various States. As a matter of fact, as we point out in our statement, in Texas, for example, 74 percent of restaurant industry payroll wages are subject to the tax, while the average in Texas is only 40 percent for all other industries. The benefits drawn and charged to restaurant employers is only 26 percent of the employers' contributions, and this is much lower than the average for all other industries, which is about 40 percent.

The same thing is true in the other States. What we are saying is that, although we are a high turnover industry, we do not have the kind of turnover that creates unemployment compensation demand. Our people either go into another restaurant or often into another business, or they remove themselves from the work force.

We have a large number of part-time employees, women who are working or are working mothers, students, and so forth.

It is these people who will be most outrageously affected by this legislation. As you are aware, the employer must pay the FUTA tax on the first $7,000 of wages paid. When we are talking about part-time people, there are several people taking care of the same position in that restaurant.

If we are going to include the full amount of their tips as part of their wages for our tax purposes, then it means we will be paying on that $7,000 several times for several people to take care of that table by the window.

Then it is an incentive for us to say, OK, we need just one person and we will hire one person, instead of taking care of the needs of students or the mothers who are working or the people who could accommodate that part-time interest.

I think the incentive works against employment rather than working for it.

In addition to that, it obviously increases the cost of doing business, and when labor costs are such a high percentage of the restaurant business to start with, as we are obviously a labor intensive industry, we are talking then about raising menu prices, and doing all of the things that create disincentives to continuing in business.

Furthermore, the argument, as I understand it, which was made when this change was put in was that an unemployed waiter or waitress ought to be entitled to collect unemployment dollars based on their true income, which would include both wages and tips. That is fine, except that the Federal unemployment tax does not go to pay those benefits. It goes to pay the administrative costs of State jobs service programs. It is the State unemployment tax that pays the benefits that actually go back to the employee.

Again, we believe that the effect of this particular tax will be most adverse when it comes to part-time employees, and also that it is unfair to require the employer to pay tax that is uniquely his tax, that is not a tax shared by employee and employer, to require the employer to pay a tax on dollars that he did not generate and has no control over and is not paying over to that individual. The employer simply does not have any contact with those dollars, and indeed, if he did, he would be violating the labor laws, which specifically prohibit him from exercising any control over those tipped dollars.

And basically, that is our position. We would hope, frankly, that the law, which does not go into effect until January 1, 1986, will be looked at again with the idea of repealing it, because the effect will be adverse to employment rather than an incentive and an encouragement to employment.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF RONALD A. SARASIN, DIRECTOR OF GOVERNMENT RELATIONS, NATIONAL RESTAURANT ASSOCIATION

The National Restaurant Association is a non-profit trade association representing 10,000 members who operate more than 100,000 foodservice facilities across the country.

Of great concern to the restaurant industry are changes enacted in July, 1984 to the Federal Unemployment Tax Act (FUTA). For the first time, employers will now be required to pay the FUTA tax on all reported employee tip income. This change is scheduled to become effective on Jan. 1, 1986, and poses a significant burden for the many small restaurant businesses in the country.

This change was intended to generate more funds for unemployed waiters and waitresses. Instead, however, the tipped employees will receive very little in unemployment compensation and the restaurants of your communities will be, in effect, subsidizing the unemployed workers of other industries. Restaurants are already contributing more than a fair share to the federal unemployment trust funds.

TIPPED EMPLOYEES IN THE FOODSERVICE INDUSTRY

Tipped employees in the foodservice industry do not qualify for unemployment benefits in the great majority of cases. They are usually unemployed only by choice since jobs are nearly always available.

They often work part-time, to supplement other income or because they are students. Under the recent change to FUTA, employers have a clear incentive to eliminate part-time positions. The FUTA tax is paid on all wages up to a ceiling of $7,000 per year per employee, and the employer previously did not reach that ceiling for a part-time employee who receives the minimum wage. With all tip income includable as "wages," however, an employer will be paying the FUTA tax on the full $7,000 for each part-time employee. In every case, it makes more sense for an employer to hire one full-time employee rather than two part-time employees.

This will have a detrimental effect on women who work both in the home and outside the home, supplementing their household income with part-time restaurant work, as well as on full-time students who tend to seek tipped jobs on a part-time basis in the foodservice industry.

THE FOODSERVICE INDUSTRY ALREADY PAYS ITS WAY IN UNEMPLOYMENT COMPENSATION

The foodservice industry as a whole pays more into federal and state unemployment compensation trust funds than is withdrawn by unemployed foodservice workers.

For example, in Texas, during a period in 1981–1982, restaurant operators were taxed on 74% of their payroll wages, compared to the average Texas payroll of which only 40% was subject to the tax. Benefits drawn and charged to restaurant employers were only 26% of the employers' contributions, whereas the average benefits charged to all employers were 40% of the employers' contributions.

In Missouri, eating and drinking places took out only 78 cents in benefits for every $1.00 in taxes paid. The restaurant industry there is paying for the unemployment fund deficit created by other businesses. The recent change to FUTA unfairly requires the restaurant industry to pay More.

In addition, one of the characteristics of the foodservice industry is a high voluntary "turnover" rate among employees. Foodservice employers will now pay a penalty because of this characteristic: it is likely that the FUTA tax on the full $7,000 wage amount will be reached fairly quickly with the inclusion of tips as wages, and when an employee leaves, the employer must begin paying the FUTA tax over again for the new employee.

THE FEDERAL UNEMPLOYMENT TRUST FUND

Funds paid into the Federal Unemployment Trust Fund are not paid out in benefits to unemployed workers. Rather, the federally paid unemployment tax dollars go to paying the administrative costs of the state jobs service programs and offices. The increase in the FUTA tax burden on restaurant employers will not translate into a single dollar of increased benefits for unemployed restaurant workers.

CONCLUSION

Employment in the restaurant industry is unique in the sense that the tipped employees expect to earn the major portion of their income from tips; the wages earned are not the feature which attracts workers to tipped server positions. The employer, along with the non-tipped wage-earners and salaried employees, provides the environment within which a tipped server can earn a sufficient to excellent income through customer tips. The tipping transaction is between the customer and the tipped employee, involving the employer only to the extent of reporting requirements for tax purposes. Tips are not like wages; they are not provided by the employer, and the employer has no control over the amount of tips received. Given this unique arrangement, it is unfair to burden the employer with an employment tax on the uncontrolled level of tip income.

Average profit among our members in the food and beverage restaurant industry is only 4.2 percent before taxes. Labor costs, including benefits, are 29.2 percent.[1] 94 percent of all restaurants are small businesses, with sales under $500,000 per year; 85 percent are single unit operations; and 61 percent are sole proprietorships or partnerships. The increased employment tax burden on the restaurant industry will have to be met through raising menu prices—an act which many of the restaurateurs who are small businessmen and women say could hurt their customer traffic significantly.

It doesn't make sense to penalize an industry that keeps people working.

WASHINGTON ALERT

Many restaurants will face increased state and federal unemployment taxes if legislation currently being considered by Congress is enacted. An amendment to H.R. 4170 adopted by the Ways and Means Committee expands the definition of wages subject to the unemployment tax (FUTA) to include all reported tips. Currently, only those tips which are used as a credit against the federal minimum wage are subject to FUTA taxes. Both the current law and the amended version still limit the tax to the first $7,000 in wages paid to any employee. A $7,000 cap on the wages subject to the tax does not offset the effect of including all reported tips because of the extensive use of part-time employees in our industry and because of our high rate of employee turnover. H.R. 4170 would increase FUTA taxes for all restaurants employing tipped employees.

We need Your Help in Stopping This Unwarranted Tax Increase!

Several members of our Association have computed the effect the change would have had on their operation had the amendment become law in 1983. The effects were startling. Wages subject to tax were increased as follows:

In wages subject to tax

	Percent
A coffee shop operation	11.8
A general family restaurant	15.0
A theme restaurant	17.4
A dinner house	24.1

These are only examples. The effect on your establishment may be different.

The tax bill has passed committee and is expected to be debated in the full House in early April. The FUTA tax change is only one provision of a very long tax bill. No amendments will be allowed when the bill reaches the House floor. Members of Congress will not be able to vote for or against any single provision but only for or against the entire tax bill. While the FUTA tax provision alone is unlikely to cause a Congressman to vote against a very complex bill, your objection to that provision could be the deciding factor in causing your Congressman to oppose the entire bill.

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[1] 1984 Industry Operations Report, National Restaurant Association.

We Urge You to Write Your Congressman and our Two Senators to Voice Your Opposition to the Measure.

You may wish to consider the following points when writing your Congressman:

None of the revenue raised by the FUTA tax provision will be used to offset the federal deficit.

The restaurant industry already pays FUTA on a higher percentage of our payroll than most industries. In Texas 74% of our total payroll was subject to the tax, while the average for the state was 40%.

Employers have no control over the tip income received by employees. Tips are not actually part of the wages paid to employees and should not be considered wages except to the extent that they are used as a credit against the minimum wage.

If all tips are considered wages for tax purposes, then all tips should be considered wages for the purpose of satisfying the minimum wage.

MISSOURI RESTAURANT ASSOCIATION,
Kansas City, MO, April 27, 1984.

Honorable ———
Longworth Building,
Washington, DC.

DEAR REPRESENTATIVE ———: As you know, the House Ways and Means Committee tax bill contains a provision, put forth by Rep. Marty Russo, that all restaurant employees' tip income shall be redefined as "wages" for purposes of taxation under the Federal Unemployment Tax Act.

This is a very serious and detrimental proposal for our membership. It is our belief that such a provision has no business in a Congressional revenue-raising bill. It will do nothing to reduce the federal deficit. It simply represents a maneuver to vastly and unfairly increase our industry's tax burden. It will have a serious cost impact among our members, which includes restaurants in Missouri, Kansas and Illinois.

Throughout the years, and most noticeably during the recent recession, the restaurant industry has kept its people working. The enclosed summary from the Missouri Division of Employment Security points out the following facts:

(1) Eating and drinking places took out only 78 cents in benefits for every $1.00 in taxes paid. Notice the other industries and how they have drained the UC fund. The restaurant industry is already paying for the unemployment fund deficit created by other businesses. The House tax bill proposal would force us, arbitrarily, to pay even more.

(2) The restaurant industry already pays unemployment taxes on a larger proportion of its total payroll than any other industry. We pay taxes on 80% of our total payroll already versus 42% for construction, 37% for manufacturing, 32% for transportation. The House proposal would exacerbate this already unfair burden.

This scheme would greatly increase the tax burden for restaurants. The impact would be greatest in part-time jobs, usually held by young people, students, housewives, and minorities. This proposal would inflate their wage base, and require the restaurant to pay taxes over and over again for essentially a single position filed by several part-time workers.

Moreover, these jobs are subject to substantial turnover. Again, more unemployment taxes would be paid on the wages of the replacement worker. And since jobs are plentiful in our industry, these workers find new employment easily and do not file many claims for unemployment benefits.

This provision will not reduce the federal deficit one cent. It will simply shift—unfairly and arbitrarily—the burden of the unemployment compensation fund onto an industry that has an excellent record of providing jobs. It doesn't make sense to penalize industries that keep people working.

On behalf of our 3,400 members, I respectfully request your active support in removing this unfair provision from the House bill or any Conference Committee bill. Our industry also faces a large increase in taxes on liquor, one of our raw materials. This unemployment compensation scheme is bad legislation.

With appreciation for your consideration and support, I am,

Sincerely,

DICK WALLS, *President.*

Chairman FORD. Thank you.

We will call our last witness, Mr. James Fenton.

STATEMENT OF JAMES H. FENTON, PRODUCT MANAGER FOR UNEMPLOYMENT COMPENSATION MANAGEMENT, AUTOMATIC DATA PROCESSING, INC.

Mr. FENTON. Thank you, Mr. Chairman. I am James H. Fenton, product manager for Unemployment Compensation Management. I am here as a representative of Automatic Data Processing, Inc.

Our interest in coming here today is that ADP provides a professional service to administer the unemployment affairs of nearly 8,000 U.S. employers. Because of our involvement in this particular industry, we are concerned about the high cost of unemployment.

What we would like to propose today is a procedural revision that we feel would improve the quality of the Federal-State unemployment compensation system. Currently, 48 of the 53 jurisdictions that participate in the Federal-State unemployment system use an experience rating concept in order to determine the rate of tax that an employer would pay to finance his unemployment obligation. A key element in the tax rate computation is benefit charges, those moneys that are paid by the State unemployment system to former employees and deducted from an employer's unemployment account.

Sound business practices require the reconciliation of all accounts. All employers have an obligation to audit their unemployment account, and when I say "obligation" I do not mean this in a figurative sense, but really in a literal sense, because improperly paid benefits that escape detection create a drain on the Federal-State unemployment insurance system and increase the cost of administration.

All employers are affected by the additional tax burden that this creates. However, employers in 28 States cannot reconcile their unemployment accounts because the State fails to provide detailed benefit charge data by compensable weekending date. This is a serious shortcoming in the current system.

Twenty of the 48 jurisdictions that use an experience rating system provide employers with detailed listings of benefit charges by compensable weekending date. The remaining 28 States provide only periodic totals, by claimant, for either a monthly, quarterly, semiannual, or annual period.

Without detailed charge data, the employer cannot audit his account. He cannot review the propriety of individual benefit charges to ensure, for example, that he is not charged for benefits paid during a period of disqualification or for a period after a claimant has returned to work. He also cannot determine if his account was properly credited for benefits improperly paid.

In 1935 when the unemployment insurance system was conceived, it would have been a significant clerical and accounting task to itemize charges and credits by compensable weekending date. In today's era of computers and data processing, it is a simple and inexpensive task. States pay benefits to claimants for individual weeks of unemployment. Charges should be reported to employers using the same format.

The small print on the bottom of charge statements states: "This is not a bill" or "No payment required." However, because the unemployment insurance system is designed to be self-supporting, it

is in fact a bill, a bill that the employer will pay later in the form of increased unemployment insurance taxes.

I doubt if any of us would use a credit card that billed us once a year and failed to provide us with an itemized listing of all purchases and credits during the prior 52-week period. In December, thousands of California employers will received annual benefit charge statements. These statements will provide, by claimant, a total of all benefits paid during a 52-week period, they do not, however, provide the detailed charge data that is needed to reconcile accounts.

In my prepared statement that was submitted prior to the hearing this morning, I enclosed a copy of a California benefit charge statement that provides annual totals, as well as a Florida statement that provides quarterly totals. A Massachusetts statement is also included which provides a tremendous amount of information, including a listing of itemized benefit charges by compensable weekending date.

The Random Audit Program commissioned by the ETA indicates the amount of overpayments in the five States surveyed was 14.2 percent. A recent GAO report assessing the Random Audit Program stated: "Random audit results indicated that there were limitations in the State system for detecting, preventing, and recovering overpayments."

We feel that employers should take an active role in participating in the audit process. As the final auditor of all charges against his account, the employer should be provided with detailed benefit charge data so he can review the validity of each individual benefit charge deducted from that account.

The GAO assessment of the Random Audit Program further states: "A principal UI goal is to pay correct benefit amounts only to entitled individuals. Thus preventing overpayments is important."

ADP urges that States be required to provide detailed, itemized benefit charge data to employers on at least a quarterly basis. We feel this is a simple procedural change that will neither reduce the claimant's entitlement, nor will it increase the employer's costs. It will serve to reduce a drain on the system, a drain that has a negative effect on both claimants and employers.

We do have some more detailed information on this particular problem that we would be happy to make available to the committee. We would also like to thank you for the opportunity to appear here today.

[The prepared statement follows:]

STATEMENT OF JAMES H. FENTON, PRODUCT MANAGER FOR UNEMPLOYMENT COMPENSATION MANAGEMENT, AUTOMATIC DATA PROCESSING, INC.

SUMMARY

A critical shortcoming exists in the experience rating system. A flaw caused by the failure of many states to provide employers with detailed benefit charge data by compensible weekending date.

ADP recommends that all states be required to issue detailed charge statements.

STATEMENT

Automatic Data Processing Inc. (ADP), provides a professional service to administer the unemployment affairs of nearly 8,000 employers throughout the United States. The thrust of our efforts on our client's behalf is to reduce their unemployment insurance costs to the lowest possible level.

Employers have an opportunity for unemployment insurance savings as well as an obligation to control their unemployment insurance costs. Sound business practices require the balancing of all accounts and the reconcilation of any apparent discrepancies. Unemployment insurance accounts require the same level of attention. Any errors present will increase the individual employer's unemployment insurance costs and result in a drain on the systerm in general. A drain all employers must pay for through increased unemployment insurance taxes and increased costs necessary to administer the Federal/State unemployment insurance program. Apathy and ignorance on the part of individual employers resulting from the lack of information combine to inflate the cost of unemployment insurance for all employers.

Currently, 48 of the 53 unemployment programs in the United States, Puerto Rico and the Virgin Islands use an experience rating concept to assign unemployment insurance tax rates to employers. Critical elements in this experience rating process are benefit charges or benefit wages. These two items are key elements in formulae used to calculate an employer's unemployment insurance tax rate.

A critical shortcoming exists in the current system of experience rating employers. Only 20 of the 48 jurisdictions that use an experience rating system to determine an employer's unemployment tax rate provide the employer with detailed, itemized benefit charges by compensible weekending date. Furthermore, only 32 of these 48 jurisdictions provide employers with a monetary determination that clearly states the amount of the employer's liability, i.e., the maximum charge to the employer's account that will utlimately be used to determine his new tax rate.

The individual employer is, in fact, the final auditor of all benefits paid to his former employees. He has the obligation to review the propriety of each benefit charge to insure that the benefit amount is correct, that total charges to date do not exceed the employer's liability, that benefits are not paid for any period after a claimant has returned to work, that benefits are not charged for any claim where relief has been granted or that requested credits are properly posted to his account.

This important audit function is severely impaired when states provide quarterly or annual benefit charge totals rather than itemized charges and credits by claim date and compensible weekending date. Certainly good accounting and business practices require that an employer should be afforded the opportunity and information necessary to reconcile his account.

The Unemployment Insurance Service of the Employment and Training Administration, U.S. Department of Labor commissioned a Random Audit Program that was conducted from April 1981 through March 1982 in Illinois, Kansas, Louisiana, New Jersey, and Washington. One of the major findings of the study was that an estimated $392 million or 14.2 percent of the $2,754 million total of UI benefits paid in the 5 states combined were, in fact, overpayments.[1] This contrasts sharply with the 1.5 percent overpayment detection rate reported by all states during 1981. During 1982, the program was expanded to 10 additional states. One of those 10 states, the State of New York, published the results of their participation in the program. The Random Audit Program in New York concluded that $72.8 million was overpaid. However, the state's own benefit control program detected only $19.5 million in overpayments—a difference of $53.3 million. The report concluded that "the $53.3 million difference suggests an inadequate system in the state for detecting and determining overpayments".

Access to detailed information concerning a claimant's unemployment insurance claim was an important part of the Random Audit Program. Employers need access to detailed charge data in order to review the propriety of individual benefit charges by compensible week. Itemized charge data will allow the employer to reconcile his account and to actively participate in the audit process. Detailed charge information will also aid in an equitable distribution of the burden of unemployment, foster the concept of unemployment insurance tax rates based on experience and eliminate a major source of employer criticism.

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[1] The Development of an operational System for Detecting Unemployment Insurance Payment Errors Through Random Audits: The Results of Five Statewide Pilot Tests; Paul L. Burgess, Jerry L. Kingston, Robert D. St. Louis; Unemployment Insurance Service, Employment and Training Administration, U.S. Department of Labor; December 1982.

This is just one example of how, through improved and increased communications, the Federal/State UI Programs and employers can work together to reduce the cost of unemployment insurance. Federal and State UI Programs should take a pro-active approach in educating the employer in order to reduce the cost of unemployment insurance.

The results of The Random Audit Program further reinforce the need for itemized statements of charge data. In this era of data processing, the cost and inconvenience to the Federal/State Unemployment System are minimal. The benefits to the employer, however, are most significant. ADP for its 8,000 clients urges the ETA to require each state to provide itemized charge and credit data by claim date and compensible weekending date to all employers.

STATES WITHOUT COMPENSIBLE WEEKENDING DATES ON CHARGE NOTICE

ARIZONA - QUARTER TOTAL
ARKANSAS - QUARTER TOTAL
CALIFORNIA - ANNUAL TOTAL
DISTRICT OF COLUMBIA - QUARTER TOTAL
FLORIDA - QUARTER TOTAL
GEORGIA - QUARTER TOTAL
HAWAII - ANNUAL TOTAL
IDAHO - ANNUAL TOTAL
ILLINOIS - 3 TIMES A YEAR (CHARGED BEN. WAGES)
IOWA - QUARTER TOTAL
KANSAS - ANNUAL TOTAL
KENTUCKY - MONTHLY TOTAL
LOUISIANA - QUARTER TOTAL
MARYLAND - QUARTER TOTAL
MINNESOTA - SEMI-ANNUAL TOTAL
MISSISSIPPI - QUARTER TOTAL
MONTANA - QUARTER TOTAL
NEBRASKA - QUARTER TOTAL
NEVADA - ANNUAL TOTAL
NEW MEXICO - QUARTER TOTAL
NORTH CAROLINA - ANNUAL TOTAL
NORTH DAKOTA - QUARTER TOTAL
*OREGON - QUARTER TOTAL
SOUTH CAROLINA - QUARTER TOTAL
TENNESSEE - QUARTER TOTAL
*TEXAS - QUARTER TOTAL
VIRGINIA - QUARTER TOTAL
WASHINGTON - QUARTER TOTAL
WYOMING - QUARTER TOTAL

* NOTES: TEXAS-UPON WRITTEN REQUEST @ 1.00 PAGE, ELSE ANNUAL TOTAL.
OREGON: UPON WRITTEN REQUEST ONLY.

STATES WITH NO MONETARY DETERMINATION

ALASKA
ARIZONA
ARKANSAS
GEORGIA
INDIANA
MAINE
MARYLAND
MISSOURI
MONTANA
NEBRASKA
NEVADA
NEW MEXICO
NEW YORK
NORTH DAKOTA
RHODE ISLAND
UTAH
WISCONSIN
WYOMING

Attached are some of the most and least informative charge statements provided to employers. The exhibits provided are designed to illustrate the format used by the state to provide charge data to employers. All company names, account numbers, claimant names and claimant social security numbers are fictitious.

MASSACHUSETTS

The State of Massachusetts provides one of the most informative benefit charge statements in the nation. All charges contain claimant name, social security number, maximum potential liability, compensible weekending date, charge amount, and weekly benefit rate.

Employers can easily review each charge statement and reconcile their account. Over charges can be easily discerned and credits are clearly identified by compensible week.

THE COMMONWEALTH OF MASSACHUSETTS
DIVISION OF EMPLOYMENT SECURITY
Charles F. Hurley Building
Stanford Street, Government Center, Boston, Massachusetts 02114

Reply to
Employer Charge Department

SHEET 1

STATEMENT OF BENEFIT CHARGES

Quick Mfg. Co.
100 Quail Street
Boston, Mass.

FOR THE MONTH ENDING →

MONTH ENDING			MAILING DATE		
MO	DAY	YR	MO	DAY	YR
10	31	83	12	30	83

EMPLOYER NUMBER

USE REVERSE SIDE OF THIS FORM TO PROTEST BENEFIT CHARGES

OFF. NO.	SOCIAL SECURITY ACCOUNT NUMBER	CLAIMANT'S NAME	POTENTIAL BENEFIT CHARGE	PAID FOR WEEK ENDING MONTH	DAY	YR	AMOUNT OF CHARGE OR CREDIT	WKLY RATE	COMP WK.	EFF WK.	T R.
35	028 35 1890	MARY C. WALSH	3450	10	15	3	115	115	41	40	3
35	028 35 1890	MARY C. WALSH		10	22	3	115	115	42	40	3
31	015 41 3870	ELAINE MAC CARTY	2271	10	15	3	081	81	41	40	3
31	015 41 3870	ELAINE MAC CARTY		10	22	3		81	42	40	3
27	017 35 3784	C MILLER		09	17	3	001CR		37	23	3
27	032 45 6185	LYNNE COPPER	2850	10	15	3	095	95	41	40	3
35	032 45 6185	LYNNE COPPER		10	22	3	095	95	42	40	3
35	025 47 2336	DANIEL F. LANG	2168	10	15	3	080	80	41	40	3
36	025 47 2336	DANIEL F. LANG		10	22	3	080	80	42	40	3
36	027 41 9808	MICHAEL DEANE	3450	10	01	3	058	58	39	28	3
36	027 41 9808	MICHAEL DEANE		10	08	3	058	58	40	28	3
36	027 41 9808	MICHAEL DEANE		10	15	3	058	58	41	28	3
36	027 41 9808	MICHAEL DEANE		10	22	3	058	58	42	28	3
25	024 33 0069	EDWARD DARCY	3450	10	15	3	115	115	41	40	3
27	031 19 2969	MARK H. BROWN	3450	10	22	3	115	115	42	41	3

* NOTE: THIS STATEMENT IS NOT A BILL OR A REQUEST FOR PAYMENT. IT IS A NOTICE OF BOOKKEEPING CHARGES (DEBITS) AND CREDITS BY "CR" AND SUBSEQUENT CHARGES REMOVED FROM YOUR ACCOUNT.

$ 1,203
TOTAL MONTHLY CHARGES

FORM [illegible] REV. 7-77 [illegible]

CALIFORNIA

The State of California provides employers with an annual statement of benefit charges deducted from their account. One line item is shown per claim. It is impossible for the employer to determine if the claimant was paid during a specific week or weeks when he (the claimant) was ineligible for benefits.

California employers cannot check the propriety of benefits paid for individual weeks based on the information provided by the state. Claimants can be paid during temporary disqualification periods and beyond return to work dates without the employer being aware of a possible overcharge to his account.

STATEMENT OF CHARGES TO RESERVE ACCOUNT
UNEMPLOYMENT INSURANCE

STATE OF CALIFORNIA
DEPARTMENT OF BENEFIT PAYMENTS

CLAIMANT'S NAME	SOCIAL SEC NUMBER	DATE OF CLAIM MO	DAY	YR	AMT CHARGED (DOLLARS)	MOD	CLAIMANT'S NAME	SOCIAL SEC NUMBER	DATE OF CLAIM MO	DAY	YR	AMT CHARGED (DOLLARS)	MOD
E BELLI	553 03 3612	03	08	3	902		M JACOME	562 14 2003	11	09	2	2-	
d PEREIR	566 72 5233	05	09	3	430		V FAKAKO	548 52 7524	11	01	2	408	
C CARSON	436 88 9105	05	10	3	671		R FOSTER	545 67 5626	11	01	2	976	
T STILE	571 65 0336	04	19	3	1819		I BRAGA	572 73 0226	04	26	2	1547	
R MACAPA	554 94 4117	01	31	3	13		C SILVER	546 72 3808	12	13	2	661	
P BABBES	547 06 0559	04	19	3	376								

ADP UI COST CONTROL
3300 OLCOTT STOP 113
SANTA CLARA, CA 95051

YOUR ACCOUNT NO	BR	PREDECESSOR ACCOUNT NO	DATE MAILED MO DAY YR
149 3063	00		11 17 83

PAGE 1
OF 1

TOTAL AMOUNT CHARGED (DOLLARS) 7801

NO PAYMENT REQUIRED

SEE ENCLOSED INSERT FOR EXPLANATION AND INSTRUCTIONS

FLORIDA

The State of Florida provides employers with a quarterly statement of benefit charges. One quarterly total appears per claimant per quarter along with the number of weeks paid. However, the employer cannot identify which of the weeks during the quarter were paid. For example, let us assume that R. Fletcher was laid off on March 30 due to lack of work and disqualified for 2 weeks due to a vacation payment. The charge statement indicates that 9 weeks of benefits were paid. However, in this instance, it is impossible for the employer to determine if his account was overcharged for one or more weeks of benefits. The employer cannot determine if any of the 9 weeks of benefits paid to the claimant are for weeks of disqualification.

FDC FORM UCB-12
REV. 8-78

STATE OF FLORIDA DEPARTMENT OF COMMERCE
DIVISION OF EMPLOYMENT SECURITY
BUREAU OF UNEMPLOYMENT COMPENSATION
TALLAHASSEE, FLORIDA 32304

NOTICE OF BENEFITS PAID

Unless application for redetermination is filed with this Department within 15 days from date of mailing, the statement shall become conclusive and binding for all purposes of the Florida Unemployment Compensation Law except insofar as the Department finds that any sums listed hereon were paid as a result of fraud or error, however no redetermination may be based on disqualifying information except as explained on the reverse side of this statement.

AUTOMATIC DATA PROCESSING
P.O. BOX 1160
CLIFTON, NJ 07015

ACCOUNT NO.	QUARTER END. NO.
6277341	JUN 30,1984

This is a Notice of claimants paid and amount charged to your Experience Rating account. It is not a request for payment.

LOCATION CODE AS SHOWN ON DETERMINATION NOTICE TO BASE PERIOD EMPLOYER OF VALID CLAIM FILED, FDC FORM UCB-12

CLAIMANT'S NAME	SOC. SEC. NO.	EXPIRATION DATE OF CLAIM	NO. WEEKS OF BENEFITS PD. IN QTR.	TOTAL CHARGED TO TAX RATING RECORD
DAVID GILLESPIE	031-23-5283	09/11/84	8	147.60
NORMAN P CHAPMAN	165-43-5750	11/12/84	5	410.00
MARILYN K SELIGMAN	256-26-2222	11/26/84	3	94.50
RICHARD D FLETCHER	303-25-5855	09/24/84	9	464.94
WILLIAM H PIERSON	440-02-7855	11/19/84	4	186.96
			5*	$ 1,304.00 *

If you have recently been notified that your account is not chargeable with any portion of the benefits which appear on this statement, a statement of adjustment (in the form of a credit memorandum) removing the charge will be mailed to you within the next 60 days and you may disregard charge shown hereon.

Chairman FORD. Thank you very much, and I thank the other members of the panel. I guess it is so late in the afternoon that we are all sort of worn out.

I think today was the beginning of a new day as we take a close look at the FSC expiring on March 31, 1985, and which this subcommittee and the full committee and the Congress, in both the House and the Senate, will no doubt move in some direction.

I must say that not only the four of you, but all of the witnesses have been very helpful to the subcommittee, and I am sure after we review all of the information that is in the record and set several other dates in the very near future it might be that we will be calling back upon some of you, your organizations, and institutions, to come back before the committee at a later time.

It might be while we are out in the field conducting our business, and hopefully we can spend the kind of time that will be necessary. But we will try to avoid creating any real problems on any segment of our society. But most of all, I think we have to be maintaining a concern for the unemployed in this country and trying to respond to them without shifting any heavy burden of responsibility, whether it is to the business, or corporate community, or wherever it might be.

But hopefully, we can come up with some legislation that we all can agree upon and all can support at the proper time.

Once again, I would like to thank the witnesses on this panel for testifying before the committee and spending your valuable time here in Washington today and spending all day in this committee room. Thank you very much for your attendance.

I would say that this would conclude the witness list of the Subcommittee on Public Assistance, and the committee now stands adjourned subject to call of the Chair.

[Whereupon, at 5:40 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

STATEMENT OF GERALD D. MORRIS, ASSOCIATE DIRECTOR OF LEGISLATION, AMERICAN FEDERATION OF TEACHERS

Mr. Chairman and Members of the Committee, the American Federation of Teachers commends you on your inquiry into proposals to improve the unemployment compensation system. At this time, the AFT would like to bring to your attention one particular proposal to increase the efficacy of the system. That proposal is to extend full unemployment compensation benefits to nonprofessional, or, as they are often called, classified, school employees.

Classified school employees, such as teacher aides, paraprofessionals, cafeteria workers, clerical staff, and the like, are generally paid at very low rates. Beginning rates, when you consider the limited number of hours of work available, do not bring incomes much above the minimum wage level. Attached to this statement is a table from "Wages and Salaries Paid Support Personnel in Public Schools, 1983-84", a publication of the Educational Research Service. Many classified employees are single, heads of households, supporting minor children.

Classified school employees enjoy far less security than do professional school staff. In many cases they are hired on an hourly basis, not on a salaried basis. They are much less likely to have annual contracts which presume some form of continuing employment. Nor do they usually enjoy the tenure protections which are afforded professional staff.

The American Federation of Teachers believes the present law which excludes classified school employees from unemployment benefits between school terms is discriminatory and arbitrary. This is particularly true since many other seasonal employees enjoy full coverage. There are examples where nothing more than transferring a classified employee from the school system payroll to the local government

payroll restores their eligibility for between terms coverage. The nature of the employment relationship for classified employees is not the same as for professional school employees, and the two should not be treated the same.

The present status of classified personnel gives school systems an incentive to cheat their employees. Although school officials may know they face layoffs of personnel at the beginning of the next school year, they can save thousands of dollars by leading their employees to believe they will all have jobs. The criteria, "reasonable assurance," is so vague as to allow vast room for dissimulation. From one locality to another, "reasonable assurance" may have greatly different meanings. The classified school employee who learns in the fall that she is out of work is unable to recapture the benefits she was wrongfully denied.

The argument, that classified employees should save from their incomes sufficient funds to carry them through the lean period between school terms, is specious. A single, head of household, with minor children and an income of only $8,000 to $12,000, or so, per year, simply cannot save the necessary money. If this person is unable to secure a summer job, and is barred from unemployment compensation, she is also quite likely to find herself barred from public assistance benefits.

The American Federation of Teachers asks the Committee, as a part of its legislative program, to consider the issue of restoring full unemployment compensation benefits to nonprofessional school employees. The AFT will be pleased to cooperate with the Committee in such an endeavor.

TABLE 2.—MEAN OF MEAN, LOWEST AND HIGHEST HOURLY WAGE RATES PAID TEACHER AIDES, CUSTODIANS, CAFETERIA WORKERS, AND SCHOOL BUS DRIVERS IN REPORTING SCHOOL SYSTEMS, BY ENROLLMENT GROUP, 1983–84

Position	Enrollment group				
	25,000 or more	10,000 to 24,999	2,500 to 9,999	300 to 2,499	Total-all reporting systems
	Mean of mean hourly wage rate				
Teacher aides:					
Instructional	$5.80	$5.57	$5.42	$5.32	$5.48
Noninstructional	5.94	5.49	5.08	5.01	5.22
Custodians (not engineers)	6.59	6.51	6.47	6.47	6.49
Cafeteria workers (not supervisors)	5.34	5.15	5.04	4.98	5.09
School bus drivers	7.14	6.87	6.80	6.93	6.89
	Mean of lowest hourly wage rate				
Teacher aides:					
Instructional	4.85	4.70	4.77	4.85	4.78
Noninstructional	4.94	4.80	4.61	4.69	4.71
Custodians (not engineers)	5.18	5.43	5.49	5.55	5.46
Cafeteria workers (not supervisors)	4.41	4.34	4.30	4.41	4.35
School bus drivers	6.28	6.23	6.10	6.32	6.21
	Mean of highest hourly wage rate				
Teacher aides:					
Instructional	7.07	6.54	6.20	5.86	6.30
Noninstructional	7.10	6.34	5.62	5.34	5.83
Custodians (not engineers)	8.52	7.94	7.72	7.64	7.84
Cafeteria workers (not supervisors)	6.72	6.31	6.03	5.72	6.10
School bus drivers	8.10	7.70	7.53	7.64	7.68

STATEMENT OF RAYMOND AVRUTIS, WASHINGTON, DC

I have found several errors in the U.S. Department of Labor's "Comparison of State Unemployment Insurance Laws" regarding unemployment insurance (UI) benefits in Washington, D.C. These errors are also found in "Significant Provisions of

State Unemployment Insurance Laws, July 1, 1984." The errors are: the weekly minimum is $26, not $13-14 as claimed; earnings disregarded in computing partial UI benefits are $25 + ⅓th of earnings over $25, not ⅓ wages as claimed; and minimum weeks of UI benefits are 17+, not 13 weeks as claimed.

A major reason why these errors, as well as other errors I do not know about, have been published in two prominent federal publications is that the Unemployment Insurance Service has been the victim of "benign neglect" since 1969. When Richard M. Nixon became president, 340 people worked in the Washington, D.C. in the federal UI Service. Today, the number is down to about 120. The UI Service has hired people exclusively from their parent Employment and Training Administration for the past five years.

This policy of exclusively promoting from within has robbed the UI Service of the opportunity to be infused with fresh blood. I am an example of the type of person who should be hired by the UI Service. My book, "How to Collect Unemployment Benefits: Complete Information for All 50 States," was written in close collaboration with UI Service officials for both the 1975 Schocken and 1983 Prentice Hall editions. For both editions, I spent several hundred dollars to have the manuscript xeroxed so that UI Service employees could review it for accuracy and completeness.

It is sad that the UI Service should make errors reporting D.C. benefits as the UI Service, located at 601 "D" Street N.W., is only one city block from the central offices of the District's Department of Employment Services, at 6th & C Streets N.W. This failure of communication is at least partially due to the fact that the UI industry, which has paid out more than $75 billion since 1975, does not, at least in some juridictions, receive the Comparison for discussion and review. The UI Service should have heard from D.C. UI officials regarding the mistakes I have brought to your attention. Instead, it was I, an unemployed UI expert, who told you about these things.

Also, the UI industry does not have a monthly magazine to facilitate communication between the federal government and state agencies. The old UI Review was published from January, 1964 until December, 1968. Since January, 1969, there has been no way to inform all state agencies (and local UI offices) at the same time of advances in UI, everything from how to pay claims more efficiently to how to catch cheaters.

If and when a depression comes, UI will be brought to national attention, where it will stay for some time. People will become very concerned when they find out that the lifeline of benefit payments to the insured unemployed has been fraying for some time.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, DC, August 31, 1984.

Mr. JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means, Longworth House Office Building, Washington, DC.

DEAR. MR. SALMON: In accordance with the guidelines stated in the Committee's August 24 hearing announcement, I would like to submit the enclosed statement of State Senator William Barrett for the record of the Subcommittee on Public Assistance and Unemployment Compensation's September 12 hearing on proposals to improve the Federal-State Unemployment Insurance System.

I appreciate your assistance in making these comments available to the members of the Subcommittee in order that they might have the benefit of the Nebraska Legislature's thoughts on one particular area of needed reform, the financial threshold for definition as an employer of agricultural labor.

Best wishes,

DOUG BEREUTER,
Member of Congress.

Enclosure.

NEBRASKA STATE LEGISLATURE,
Lincoln, NE, August 28, 1984.

Hon. DOUG BEREUTER,
Member of Congress,
Longworth House Office Building, Washington, DC.

DEAR CONGRESSMAN BEREUTER: Thank you very much for your letter of August 24, in which you informed me of the pending hearings on the unemployment compensation program by the Subcommittee on Public Assistance, chaired by Representative Harold Ford.

As I indicated in previous correspondence, the Nebraska Legislature's Business and Labor Committee, during this past session, considered a bill (LB 1099), which raised the issue of when remuneration paid by an employer for agricultural labor is subject to unemployment taxes. The Federal Unemployment Tax Act, to which state statutes are tied, provides that if an employer pays less than $20,000 in a quarter for argicultural labor, the wages are not subject to unemployment tax. The members of the Business and Labor Committee have asked me on their behalf to urge Congress to seriously consider adjusting the $20,000 threshold which has been unchanged since 1976.

It is my understanding that at least one proposed measure in Congress, H.R. 5918, would increase the threshold from $20,000 to $40,000. Such an increase in this or another bill would be a most appropriate step to recognize the increases in the cost of living since 1976 and the burdens facing argiculture, especially the family farmer.

The Business and Labor Committee has taken a careful look at this matter. I know the members of our committee would be appreciative if you could forward this letter to the appropriate subcommittees as evidence of our concern and sincere wish that Congress seriously consider adjusting the agricultural labor wages threshold to more accurately reflect the legitimate needs of farmers in today's agricultural economy.

Thanks again for keeping us posted on activities in Washington regarding this important matter.

Sincerely,

WILLIAM E. BARRETT, *State Senator.*

CALUMET UNEMPLOYED WORKERS CENTER,
Gary, IN, September 7, 1984.

HELLO LADIES AND GENTLEMEN: My name is Fred Sheriff. I am from Gary, Indiana. I am a laid off steel-worker and have been for the past two years. I am now a part-time employee of the Calumet Unemployed Workers Center. Due to a lack of transportation and funds I am unable to give my testimony in person, so I am sending my testimony in writing. I have a strong disagreement with some of our unemployment policies that have affected me and many others here in Gary, Indiana.

First, I don't think its fair that we can't collect unemployment compensation benefits for each quarter that we pay into. The year I was laid off, I had earned $13,000 in the first two quarters, but I could not collect unemployment benefits because I didn't earn $900.00 in the last two quarters. Thirty miles away in the State of Illinois an unemployed worker can collect unemployment benefits from each quarter which he has paid into. Why can't we have the same thing here in Indiana?

It is very disheartening to put money into the program and not be able to collect from it. Because my unemployment ran out so fast I was unable to keep up my house payment and before I found another job I lost my home. If I was able to collect from each quarter I paid into, I would have been able to keep the house. And one more point I would like to bring up is the different amounts of unemployment compensation benefits paid out. In Illinois a single person can collect $150.00 a week. Right next door here in Indiana a single person gets $84 a week. Don't you think Indiana is a little behind in times? Inflation and unemployment are very high and it is just about impossible to live on $84 a week.

I wish I could speak with you in person today. But I want to invite you to the Calumet Unemployed Workers Center here in Gary. So you can talk face to face with me and other unemployed people who are having very hard times just trying to survive. All the talk of "recovery" these days is just cruel joke, and I hope your

sub-committee can improve the unemployment compensation system because we still need assistance here in Indiana.

Thank your very much.

Sincerely,

FRED SHERIFF,
Foreclosure Coordinator.

STATEMENT OF HON. CARROLL A. CAMPBELL, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA

Mr. Chairman, I am pleased to join you in today's hearing to review the operation of the Federal-State unemployment insurance system.

When our Subcommittee held a similar hearing on September 13, 1983 the unemployment rate was 9.5 percent. The unemployment rate now is 7.5 percent. The economic growth of the past year has resulted in a two percentage point drop in the unemployment rate. This translates into more than 3.5 million additional employed persons.

While the extent of the progress in the past year is gratifying, a 7.5 percent unemployment rate still is too high. Continued economic growth should reduce the unemployment rate further in the coming months. The skeptics who preached a vision of economic gloom a few years ago have been proven wrong. The economy has responded favorably and it should continue to create more jobs.

A major issue at last year's hearing was the extension of the Federal Supplemental Compensation (FSC) program. The FSC program was extended to March 31, 1985. While it is too early to reach any judgment on the future of the program after that date, today's hearing may bring out testimony that will be helpful to the Subcommittee next year.

Last year's hearing also received testimony concerning other structural changes in the Federal-State unemployment system. The significant drop in the unemployment rate since then may have reduced the relevance or urgency of some of those earlier proposed changes. Conversely, new issues may have arisen since then which deserve our attention.

Mr. Chairman, I anticipate that today's testimony will cover issues ranging from narrow refinements to major restructuring of the Federal-State unemployment system. I look forward to working with you on these matters.

STATEMENT OF HON. SILVIO O. CONTE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to submit testimony to the Subcommittee as you study the issue of federal unemployment programs. Clearly, major reforms in this area are necessary—especially with respect to the present Extended Benefits program—and I feel strongly that several of my suggestions could be incorporated into any legislation that the subcommittee reports.

Mr. Chairman, I am the principal sponsor in the House of H.R. 4155, the Unemployment Compensation Reform Act of 1983. Eleven of our colleagues have cosponsored this legislation, which reforms both the EB and FSC programs in several areas: the EB triggers, changes in the Insured Unemployment Rate (IUR) calculation formula, sub-state unemployment and entitlement to federal unemployment benefits within areas of a state, and various miscellaneous provisions.

First, H.R. 4155 completely revises the EB trigger calculation. Under present law, individuals who have exhausted state unemployment benefits are allowed to collect an additional 13 weeks of EB if their state is triggered on to the program. The EB program is financed jointly between the federal government and the states. A state is triggered on the program if either of the following are true:

(1) The Insured Unemployment Rate is 6 percent.

(2) The IUR is 5 percent, and is 20 percent higher than the same 13-week period the year before.

Presently, only Puerto Rico is paying extended benefits.

There are a number of problems with the extended benefits program. One major concern is with the formula used to calculate a state's IUR. Under present law, the IUR is a fraction representing the number of individuals in a state claiming state benefits divided by the number of individuals working in jobs in the state covered by the unemployment program.

The program with this formula is that as a recession worsens, the IUR decreases. The longer people remain unemployed, the lower the numerator in the fraction goes, thus reducing the IUR. The numerator not only decreases when individuals

find work, but also when they exhaust their entitlement to state benefits. An example will illustrate this problem. Assume that State "A" had 25,000 claimants for state benefits, and 500,000 covered employees in the covered workforce. The state's IUR would be 5 percent. As the unemployed claimants exhausted entitlement to state benefits, however, the IUR decreases—even though individuals many time remain unemployed.

The Omnibus Budget Reconciliation Act of 1981 amended the IUR formula to provide that the numerator of the fraction would not include recipients of extended unemployment benefits. Thus, a state "trigger off" EB more quickly than under the pre-reconciliation rules. Proposals have been made to include EB recipients in the formula, or to reduce the trigger levels to those in effect prior to 1981. Neither approach seems desirable, since it would then be difficult for a state of trigger off of EB.

Under H.R. 4155, the formula for determining EB would be amended. Under the proposed new rules, entitlement to EB would be calculated using a "Base Average Unemployment Rate" (BAUR). The Baur would be the average of the total unemployment rate in the state and the Insured Unemployment Rate. Additionally, individuals would be eligible for EB if either of the following were true:

(1) The BAUR was 5.5 percent.

(2) The BAUR was 4.5 percent and 20 percent higher than the equivalent 13-week period in the previous year.

My legislation also, for the first time, makes use of sub-state unemployment triggers. I believe that this significant change in the law would be of great benefit to states—such as my own state of Massachusetts—which have a low overall unemployment rate but with "pockets" of unemployment which greatly exceed the lower state level. Many areas of the county have declining industries. In those areas, jobs are lost because jobs no longer exist. In those areas, unemployment is not a temporary phenomenon.

Under H.R. 4155, the Department of Labor, in conjunction with state employment agencies, will compile statistics on unemployment within counties. This report would be due in six months from the date of enactment. After the report is released, the BAUR of each county would be calculated, and individuals would be eligible for benefits if the county in which they last worked was triggered onto the EB program.

Since I introduced my legislation, Congress has extended the Federal Supplemental Compensation (FSC) program to March of 1985. Under present law, FSC is paid for entirely from federal government revenues, and is in addition to all other unemployment benefits to which an individual may be entitle. FSC was first enacted as a part of the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982. I worked hard to establish this program.

Presently, FSC benefits are paid for 14 weeks in states in with an IUR of 6 percent, 12 weeks in states with an IUR of 5-5.9 percent, 10 weeks in states with an IUR of 4-4.9 percent, and 8 weeks in all other states. My legislation would link future extensions of the FSC program to the Base Average Unemployment Rate. Additionally, it insures that benefits payable in states will not be reduced more frequently than every three months, and even then, only by two weeks; qualified workers would continue to be eligible for at least the number of FSC weeks to which they were entitled at the time they first qualified for FSC, regardless of any drop in the state's BAUR. Finally, the program would phase out in March of 1985, but would trigger back on when the national BAUR exceeded 7 percent.

Mr. Chairman, my legislation also makes minor reforms to other areas of the unemployment law. First, it would allow unemployed persons to withdraw funds from an Individual Retirement Account, without incurring the 10 percent penalty which otherwise generally applies with respect to premature distribution from an IRA. The individual would have to have exhausted all unemployment benefits to which he may be entitled for this provision to apply. Finally, my legislation would allow states the option of denying unemployment benefits to nonprofessional employees of educational institution (rather than requiring this denial, as under present law).

Mr. Chairman, I know that others who have testified today would agree with me that major reforms in federal unemployment laws are necessary. Should the Subcommittee report any legislation—and presumably this will be done before next March—I would hope that the proposals embodied in H.R. 4155 will be considered during the Subcommittee's deliberations.

CORRY AREA UNEMPLOYED COUNCIL, INC.,
Corry, PA, September 11, 1984.

COMMITTEE ON WAYS AND MEANS,
U.S. House of Representatives,
Longworth Office Building, Washington, DC.

Mr. Chairman and Members of the Committee; my name is Randolph Messinger, of the Corry Area Unemployed Council, Inc.

Our delegation—being comprised of members of the Corry Area Unemployed Council, Inc., located in the county of Erie, the City of Corry, PA thank you for the opportunity to testify as to the needs in the desperate situation of unemployed people in Northwestern PA.

I was laid off October 1, 1982 from Cooper Energy Services, Ajax Division, Corry, PA. My Unemployment Benefits ran out in December of 1983. As a result of this I was forced to turn to Public Assistance. Which is barely enough to survive on. I do receive food stamps, but under this program you are not allowed to purchase toliet paper, soap, or laundry detergent which I feel is a necessity to exist as a human being.

I keep reading the Government statistics on how Unemployment is dropping and we are recovering. What I would like to know is the statistics on how much the Public Assistance has risen? The way I understand it, when you are out of Benefits you no longer count as an unemployed person. Why, I do not know, I am still out looking for work so, I must still be unemployed. I know alot of my friends and neighbors are in the same boat. What is a person supposed to do? We still have families to feed. The number of weeks for people to receive Unemployment Benefits should be extended to what they were in the past. Now that we need them the most, they cut them back. There needs to be a better way of counting unemployed workers so the Public is informed of the true state of the economy. I am still looking for the recovery. We need an extention of Unemployment Benefits.

Thank you very much.

Sincerely,

RANDOLPH MESSINGER.

STATEMENT OF TERRY H. ZIEGLER, ERIE COUNTY UNEMPLOYED COUNCIL, ERIE, PA

My name is Terry Ziegler. I am a member of the Erie County Unemployed Council. I have been out of work for over two years and have lost my home and ALL my personal belongings as a result of being unemployed.

The reason benefits should be continued and not discontinued is because we still have a lot of unemployed people. This is largely due to the type of industry found in the region, such as the manufacturing of locomotives and other long term lead time items. For this reason, when the recession hit the nation it took a while before it showed its effect on the region. But, when it did show its effects they were devastating to the point where unemployment climbed to a record high of 18%.

The need for more benefits to offset the high cost of health care should be self evident. Because when people lose their jobs for a prolonged period of time, they generally—in fact always—lose their health insurance.

Now you may ask, "What can be done locally by the state and local government to cure the problems of the unemployed?" I will say there can be nothing done by the state because the problem is not a state problem but a national one and should be handled by the federal government and not passed on to the state.

STATEMENT OF THE ILLINOIS STATE CHAMBER OF COMMERCE

The Illinois State Chamber of Commerce, Illinois' largest statewide business organization, urges your favorable consideration of HR 6112, sponsored by Representative Daniel Rostenkowski.

Enactment of HR 6112 would prevent an undue hardship form being placed upon the small employer community in Illinois. Currently, the Tax Equity and Fiscal Responsibility Act of 1982 mandates that all states have a base maximum unemployment insurance tax rate of at least 5.4% for 1985. In Illinois the maximum tax rate will exceed this federal requirement and is set at 7.0% for 1985.

However, because of the peculiarity of our unemployment insurance tax system which mitigates against employers with a total payroll of less than $50,000 per quarter, a cap of 3.7% (up from a 3.1% cap in 1983) is established. Simply put, using the

Illinois statewide average weekly wage, employers with 11 or fewer employees have a maximum unemployment insurance tax rate contribution of 3.7%.

It is our understanding that unique circumstances in certain New York State industries caused a phase-in provision to be inserted into TEFRA. We in Illinois are not seeking that which has not been previously granted, nor are we seeking a blanket waiver. We believe the four year phase-in, contained in HR 6112, to the 5.4% tax rate is a sensible approach in resolving a severe tax burden which would be placed upon the small employers of Illinois unless HR 6112 becomes law.

Implementation of HR 6112 will not harm Illinois' UI Trust Fund (which we might add is now on the positive side). Without the phase-in approach our small employers face an approximate 46% state UI tax increase on top of UI tax increases already imposed, or scheduled, for 1983, 1984, 1985 and 1986. This is to say nothing of Federal Unemployment tax increases these same small employers face. Given that these are the very firms who we hope will expand and employ more workers, it appears counterproductive to further dramatically increase this payroll tax in one year.

Once again we urge your adoption of HR 6112, allowing small employers time to properly budget for this federally mandated unemployment insurance tax increase.

Statement of the International Association of Personnel in Employment Security

OVERVIEW

The International Association of Personnel in Employment Security, representing 23,000 professional employees in the federal-state Employment Security System, believes it is in a unique position to present to the Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means the views of the hands-on program employees. It is the IAPES members who take the initial claims and make the benefit payments, and it is well recognized that no matter what the law or administrative order, it must be logically interpreted and correctly implemented to be effective.

In developing these comments, the association supports the continuation of a basic Unemployment Compensation System that is characterized by broad federal guidelines that govern a state-specific program funded by employer taxes. The association applauds the successful 50 year history of a unique program that helps maintain a working America through temporary periods of unemployment. The association is concerned that a trend to a diminishing federal involvement in the program could lead to a splintering of the system, and that the three components of the Employment Security System, the United States Employment Service and The Labor Market Information System, as well as Unemployment Compensation, are inseparably linked in an integrated program that provides assistance, support and advice to America's unemployed, underemployed and employers.

Careful review of the Unemployment Compensation program by the association's Legislative Steering Committee, which is composed of persons from all branches and all classifications of the Employment Security System, leads to the following conclusions:

1. Administrative funding should examine the relationship of all components of the Employment Security System to each other, and be adequate to support staff, overhead and automation necessary to fulfill the assigned duties.
2. Solvency of the system should not be impaired by additional programs assigned for political expediency.
3. Eligibility is a state issue.
4. Claimants and persons responsible for initial determinations should not be subjected to subsequent benefit duration changes.
5. Given the current shared funding of Extended Benefits, trigger mechanisms operate best on a state-by-state basis rather than national or substate levels.
6. The worktest is a sound idea, but some economic situations make it impractical.

Written Testimony for the Record of the September 12, 1984, Hearing of the subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means.

GENERAL COMMENTS

The Unemployment Compensation program is approaching its fiftieth anniversary. During the fifty years it has enabled the workforce to maintain a liaison with an employer who experiences temporary shutdowns due to various reasons such as the

seasonal nature of business, model change, cash flow problems and inventory surplus. It also enables the worker to maintain an income while looking for other employment if the layoff was permanent due to such things as bankruptcy, relocation of the company, permanent model changes or the effect of foreign trade on product lines. Additionally, the benefits put money back into the economy quickly at the outset of an economic downturn, which helps to slow a recessionary trend. The presence of Unemployment Compensation has helped businesses to keep skilled labor at the ready and to reopen after temporary closures; whereas the business might otherwise have closed and permanently damaged the economy. The system has well served both workers and employers. It has met its obligation to preserve a working America.

In recent years many saw Unemployment Compensation as an answer to severe economic downturn. While the association agrees both Unemployment Compensation and the Employment Service play an important role in the economy, the system cannot be all things to all people. If technology is changing rapidly, and America is faced with structural unemployment, Unemployment Compensation is not the answer. The association recommends the subcommittee consider this important point in any decision regarding the Unemployment Compensation System.

EXTENDED BENEFITS

The payment of Unemployment Compensation benefits beyond the base period provided by state laws is a relatively recent innovation when compared to the almost fifty year history of the system. The federal-state Employment Security partnership has successfully provided extended Unemployment Compensation benefits to those eligible claimants as provided in the Federal-State Extended Unemployment Compensation Act of 1970 and the Federal Supplemental Compensation Act of 1982. The availability of these benefits helped to curb the depth of the most recent recession and helped to stimulate a faster economic recovery. The association recognizes a need for an extended Unemployment Compensation program that is timed to activate during economic downturns.

The association believes that the Federal Supplemental Compensation and Extended Benefits programs should be designed to be responsive to state, regional and national economic conditions and be designed in a manner that makes the program administratively feasible. The programs should not lose sight of the intent of Unemployment Compensation to provide unemployed workers the means of getting through a temporary period of involuntary unemployment without having to turn to welfare or pass a needs test. Currently funding for Extended Benefits is shared equally by employers and the federal government. The funding for Federal Supplemental Compensation is borne completely by the federal partner through special appropriations.

As debate continues on HR. 3863, the association urges Congress to use special federal appropriations to fund any extended or supplemental Unemployment Compensation program. The reason is to protect the solvency of the basic or regular program in the states. The employer paid contributions to the various state trust funds are for the purpose of paying the regular benefits. Much of the trust fund insolvency today is a result of previous forced sharing of Extended Benefit cost. A federal program should recognize the national economic situation that caused its implementation and should provide funds from the federal general revenue. A state always is free to enact its own Extended Benefit program should it be deemed necessary to address a state-specific economic dysfunction.

The association also urges Congress to consider adequate provisions for funding staff and overhead while considering HR. 3863. Currently Extended Benefits and Federal Supplemental Compensation are allotted 25 minutes for total processing of an initial claim, which compares to 46.9 minutes for a regular claim. In addition, staff, overhead and automation are funded on the basis of the unemployment rate and the regular programs' needs. Additional programs and unreasonable time allocations negatively impact staff's ability to handle the workload.

ADMINISTRATIVE CONSIDERATIONS AND FUNDING

The federal-state partnership in the Employment Security System plays a key role in the preservation of a working America, and the federal partner needs to be the leader of a national network of Employment Service and Unemployment Compensation offices. The federal partner needs to provide broad guidelines; technical assistance and support; maintain national systems such as interstate benefits, occupational coding and computerized job matching; and serve as a clearing house for providing efficient and effective methods of operation.

The federal role in the partnership is essential if a national network of professionals staffing local offices throughout the country is to be preserved. These offices provide American workers with the ability to find jobs and to train for new skills, and they help employers in locating new workers, retraining old ones and providing Labor Market information for planning.

The successful federal-state partnership should be considered a model for all phases of government and for the common good of the nation, employers and workers. The association endorses this partnership as a symbol of the great values of this country, which emulates why the states united as one nation—The United States of America. This is a federal government. A national policy is needed, yet how could this be accomplished if each state goes its own direction? If America is to compete with other nations in this highly technical and changing society, the federal-state partnership must be maintained, not dissolved. If the federal partner is not the leader, we could face demise of a national system and be the only western, industrialized nation without a free public laber exchange and a mandated Unemployment Compensation System.

The three components of the Employment Security System are inseparable. A change to any one component will some way affect the others. The system must be viewed as an integrated whole. For instance, the Employment Service provides the worktest for Unemployment Compensation claimants. The pool of claimants is the single, largest source of applicants for the Employment Service. The fast and efficient placement of claimants lowers benefit duration, eases workload and reduces drain on the trust funds. The Labor Market Information function generates the empirical data that the system uses to plan workloads and to calculate benefits. It also assists in employer location and business planning, which affects both the Employment Service and Unemployment Compensation workload. At collocated offices, in times of high workload, staff frequently share duties, and the cost of overhead is a shared expense. Funding should recognize the interrelated nature of the programs.

Administrative funding must provide for an efficient and effective system. In Unemployment Compensation much discussion and planning has come to focus on the subjects of Quality Control and Benefit Payment Control. These are worthy topics, but the association believes proper funding at the intital claim and benefit payment processes could meet these objectives upfront and more effectively. The Unemployment Compensation program has had to rely heavily on temporary staff for completion of workloads when the periods of Extended Benefits and Federal Supplemental Compensation are available. The problem with this approach is that temporary or intermittant staff do not have the training or permanent staff. Also, the laws in many states limit the number of hours a temporary or intermittant employee may work. These problems lead to excessive turnover and inefficiency at the worst possible time.

The Unemployment Compensation System has a mechanism to properly fund base staff on workload. It is the Cost Model. Yet rather than apply funding to the staff numbers generated by the Cost Model, staff funding is set first and the Cost Model adjusted to fit. From a planning standpoint that makes no sense and eliminates the usefullness of the Cost Model.

Funding also must address peak workload periods, which are funded at lower levels and cause supervisory and other controls to be less effective. The state Employment Security agencies should not face situations where temporary or intermittant staff is fifty or sixty percent of the entire staff. This may in part be alleviated by full automation of the system, which the association fully supports as a potential cost saving measure.

Additionally, the nonpersonal service budget is inadequate because it is tied to the contingency allocation. It is assumed less support dollars are needed when in fact data processing costs may be higher because of rate changes and response time, as well as higher costs for dual programs, extra supervisory staff and additional training. Contingency funding is based on a premise that all that is needed is more clerical staff. The premise exists at the same time states are urged to increase the quality of first and all subsequent payments in order to protect the integrity of the funds.

The association urges Congress and the administrative partner to agree on a definition of base workload that is consistent with the actual covered employment rate, especially during peak workload periods. The association encourages the subcommittee to recommend to the Employment and Training Administration of the United States Department of Labor that it conduct pilot costs analysis projects in the state agencies to determine adequate funding levels.

SOLVENCY

At present twenty-six state trust funds are insolvent, plus Puerto Rico, the Virgin Islands and the District of Columbia. The trust funds are established to provide funding for the regular state Unemployment Compensation program. Use of the funds to pay for Extended Benefit programs in the past has lead to much of the insolvency. Changes in federal law enacted in 1981 and 1982 have created a mechanism to retire state debt. Applications of Quality Control and a properly funded initial claims process also will help retire the debt and return trust funds to solvency in all states. With the positive steps being taken toward returning trust funds to solvency, the association urges the Congress to refute any program that would send the system back on a road to bankruptcy. The association's position is that prolonged regional or national unemployment is the result of national economic dysfunctions, and the federal government should bear the burden for increased costs.

ELIGIBILITY

The determination of a person's right to claim benefits is established when he is filing the initial claim for the state's regular Unemployment Compensation program. The states are better able to determine the economic conditions unique to their area, and the qualifying determination should be within the state's discretion. A federal qualifying period only adds confusion to the worker who must make the initial determination and to the client who is to receive benefits. It supercedes state law, which has been developed over time to best address the state-specific situation.

DURATION

Duration of claims should be determined and set at the initial process. It is both an administrative headache and a client quandry to have fluctuating durations affecting the same individual as frequently as one month apart. Notification explanation problems abound with this provision of the Federal Supplemental Compensation program.

TRIGGERS

The concept of triggers to initiate the payment of Extended Benefits or Federal Supplemental Compensation is flawed by the very fact that the computation of the current trigger system eliminates individuals who have received extended Benefits, Federal Supplemental Compensation or have exhausted their regular benefits. They still meet the definition of unemployed. The association recommends they be included in the calculation. To the worker, whether the Insured Unemployment Rate or Total Unemployment Rate is used in determining the trigger is not as important as that both are calculated properly.

Since unemployment rates vary from state to state as a result of national as well as state decisions, it seems that the provision of a state trigger based on federal guidelines would be the best way to address both situations. This basically is what is in place now, although the association questions whether the triggers set by the federal law may be too high to properly address a significant number of unemployed for a long duration. If Extended Benefit costs must be shared by the states, a state trigger system must apply. If the federal government will pay all cost, then it will have the right to set a national trigger.

Regardless of national versus state triggers, whether too high or too low, the association is opposed to substate triggers. The workforce within a state is very mobile. Frequently workers travel from city to city or county to county for employment. The imposition of substate triggers would give a false picture and would create an administrative nightmare for most state agencies.

WORKTEST

Search for work during an economic recession is extremely difficult and many times proves to be fruitless. In hard hit geographic areas employment may be nonexistent. The association urges Congress to include work search requirements similar to those provided in H.R. 3863 in any extended Unemployment Compensation program.

CONCLUSION

The International Association of Personnel in Employment Security thanks the subcommittee for the opportunity to provide its views on Unemployment Compensa-

tion and additional benefits. As an association that represents 23,000 career professionals across the nation involved in providing services to the unemployed, it always welcomes the opportunity to work with Congress to improve the system. The association is dedicated to providing efficient and effective services to the workers and employers of America. It appreciate your consideration of the views of the front-line workers who have the dedication to, experience in and working knowledge of the Employment Security System.

STATEMENT OF INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA—UAW

We commend you. Mr. Chairman, and other members of the Subcommittee for holding this hearing to begin a review of the unemployment insurance system in advance of the expiration of the Federal Supplemental Compensation program.

Workers deserve adequate and permanent protection from job loss. Unfortunately, the unemployment compensation system has not been providing adequate protection, especially to the nation's long term unemployed.

Today, despite reports of a recovery from the worst economic downturn since the 1930s, unemployment persists at an unacceptably high level. Large numbers of workers simply are being left out of the recovery. Many are UAW members.

The share of the jobless receiving unemployment benefits is only 30%, one of the lowest levels of coverage in the nearly 50-year history of the unemployment insurance system. At the depths of the last recession less than half of the nation's unemployed received any unemployment insurance benefits.

For the few receiving benefits today, they are provided with very little cushion against economic hardships. The average benefit replaces only about two-fifths of the average weekly wage.

Statistics clearly show that the unemployed are jobless for longer periods, while reductions in unemployment insurance coverage mean that less help is available. This has resulted chiefly because of cutbacks in the Extended Benefit program contained in the Omnibus Budget Reconciliation Act of 1981.

Today, in the midst of continued high unemployment and long-term joblessness, the EB program is not operating in a single state.

The unemployed who exhaust their basic state aid must rely only on the FSC program. Having a system that allows workers to receive the third tier of benefits while denying them the second tier of benefits robs workers of protection desperately needed during periods of high unemployment.

The changes enacted in 1981 have led to reductions in budget outlays, but at an unacceptably high cost for millions of unemployed workers and their families. We have seen the costs borne by our own members.

We urge Congress not to allow the FSC program to expire. The continued seriousness of the current unemployment situation plus an outlook of little improvement in the next year make the extension of the FSC program essential.

We also urge Congress to go beyond the FSC program and fully restore the Federal-State Extended Benefit program. This would include rescinding the increases in the rates for individual states to trigger "on" the extended benefit program. The program for paying extended benefits in all states when the national insured unemployment rate exceeds 4.5% also must be revived. In addition, computation of the insured unemployment rate should include recipients of extended benefits, and should not be restricted to claimants receiving regular state benefits.

We are encouraged that members of Congress also recognize the need for a better program. Last year Representatives Stark, Pease, and Kaptur introduced the Extended Unemployment Compensation Act of 1983—H.R. 3863. However, this proposal does not go far enough.

The UAW has long called for an overhaul of the unemployment compensation system. We supported the creation of the National Commission on Unemployment Compensation in 1976. The UAW presented to the Commission a comprehensive proposal that remains fully relevant today; we urge its careful study by members of this Subcommittee, as well as full review of the Commission's complete recommendations.

We also refer members of the Subcommittee to the appendix attached to this statement for a full list of recommendations adopted by the 27th UAW Constitutional Convention, May 15–20, 1983.

Recommendations on this list plus some additional suggestions include:

Establish a permanent program to provide a maximum benefit duration of 65 weeks when unemployment at the national level exceeds the 4 percent goal set forth in the Full Employment and Balanced Growth Act of 1978, and 52 weeks otherwise.

Adopt benefit standards of at least two-thirds of a worker's wage up to a maximum amount which should not be less than 75% of the statewide average wage.

Guarantee UI benefits to workers in training programs.

Reimburse states for the excessive costs generated by high unemployment associated with the last three recessions.

Reverse restrictive Department of Labor interpretation requiring UI offset against all Social Security and Railroad Retirement pensions.

Require DOL to carry out the protective intent of the Extended Benefit program job posting law.

Guarantee full UI coverage of nonprofessional education employees by requiring "reasonable assurance" of employment in writing before benefits during school recesses could be denied.

STATEMENT

The International Union, UAW, appreciates this opportunity to submit its views on improving the Federal-State Unemployment Insurance System.

We commend you, Mr. Chairman, and other members of the Subcommittee for holding this hearing to begin a review of the unemployment insurance system in advance of the expiration of the Federal Supplemental Compensation program. While the Administation continues to seen oblivious to the problems of the unemployed, we are gratified that members of Congress are focusing on the economic hardships faced by millions of workers who have lost their jobs through no fault of their own.

Workers deserve adequate and permanent protection from job loss. Unfortunately, the unemployment compensation system has not been providing adequate protection, especially to the nation's long term unemployed.

Today, despite reports of a recovery from the worst economic downturn since the 1930's, unemployment persists at an unacceptably high level. The unemployment rate in August was 7.5%, far above the level of any previous economic recovery. Some 8½ million Americans are jobless—over 600,000 more than the 1981–82 recession began three years ago.

Large numbers of workers simply are being left out of the recovery. Many are UAW members. The increase in hourly auto employment since 1982 represents less than two-thirds the loss of jobs from 1978 to 1982, and in the auto companies themselves only one-third. Farm equipment and construction machinery employment remains more than 45% below its 1979 peak, and aircraft employment is down 20% from its latest peak.

Even though joblessness in the last three months has been at its lowest level since August 1981, those who are unemployed are in far worse shape. The number of long-term unemployed—those out of work more than six months and still looking for a job—is almost a third higher than 3 years ago. The number of "discouraged" workers—those who want a job, but have given up because of job poor prospects—is up as well. In addition, the average length of time that a worker is unemployed is now nearly a month longer than in August 1981.

The share of the jobless receiving unemployment benefits is only 30%, one of the lowest levels of coverage in the nearly 50-years history of the unemployment insurance system. This means that fully 70% of the unemployed or almost 6 million workers are without benefits. Moreover, at the depths of the last recession less than half of the nation's unemployed received any unemployment insurance benefits. This was in sharp contrast to the previous post-World War II recessions when the ratio of benefit recipients to the total number unemployed averaged 60% and had reached 71% during the severe 1973–75 downturn.

For the few receiving benefits today, they are provided with very little cushion against economic hardships. The average benefit replaces only about two-fifths of the average weekly wage. Compared with the benefit level paid in 1975, the purchasing power of the average benefit has dropped by approximately 35%.

Erosion of the unemployment system has served to undermine its role as an automatic economic stabilizer. There was a steep drop in countercyclical aid provided by UI programs over the last recession. In fiscal 1976—which included the last months of the 1973–75 recession—when 7.6 million Americans were unemployed, the nation spent nearly $31 billion (in 1982 dollars) on UI programs. In fiscal 1982, when the level of unemployment averaged 10 million, less than $24 billion (in 1982 dollars)

was spent on UI programs. While the number of unemployed was higher by one-third, the amount of countercyclical stimulus dropped by nearly one-fourth.

Statistics clearly show that the unemployed are jobless for longer periods, while reductions in unemployment insurance coverage mean that less help is available. The question is, why are so many workers without benefits? Chiefly because of cutbacks contained in the Omnibus Budget Reconciliation Act of 1981. The reconciliation legislation instituted severe eligibility restrictions for the 13 additional weeks of benefits available under the Extended Benefit program for exhaustees of regular state benefits by:

(a) Eliminating the national trigger;

(b) Excluding extended benefit recipients from the calculation of the state extended benefit triggers;

(c) Requiring a 20 to 25 percent increase in the state extended benefit triggers (by raising the necessary targets by one percentage point);

(d) Requiring twenty weeks of work for extended benefit eligibility.

If not for the first two changes, extended benefits would have been paid in all states by mid-1982, nearly one year after the onset of the recession. Instead, exhaustees of regular state benefits in many states had to wait until mid-September—when unemployment had reached more than 10%—to receive additional weeks of benefits under the Federal Supplemental Compensation program.

Extended benefits should be available whenever jobs are scarce. Yet today, in the midst of continued high unemployment and long-term joblessness, the EB program is essentially non-existent. As of mid-August, all the states were "triggered off" the program and no state was paying the second level of aid beyond basic state benefits. This has occurred despite the fact that 18 states have jobless rates in excess of the unacceptably high national average.

The unemployed who exhaust their basic state aid, normally 26 weeks, must rely only on the FSC program. FSC benefits run between 8 and 14 weeks, depending on the long-term insured unemployment rate in each state. Because the extended benefits program has been cut back and no states have an EB program "on", the FSC program essentially serves to partially compensate for the EB cutbacks. In states like West Virginia and Michigan with total jobless rates in double digits, the maximum duration of benefits between the regular state program and FSC is currently 40 weeks—which is totally inadequate. Having a system that allows workers to receive the third tier of benefits while denying them the second tier of benefits robs workers of protection desperately needed during periods of high unemployment.

The changes enacted in 1981 have led to reductions in budget outlays, but at an unacceptably high cost for millions of unemployed workers and their families. The costs arising from unemployment and the exhaustion of benefits have and are being borne privately in the homes of the unemployed. These costs range from financial insolvency, mortgage foreclosures, and the inability to pay for urgently needed medical care to the rise in intra-family tensions and mental health problems.

We have seen the costs borne by our own members. Earlier this year the UAW surveyed members who were victims of plant closings at michigan independent auto parts supplier companies. At the time of the survey we found that two-thirds were still unemployed and the average length of joblessness was over 1½ years. Not only did these workers suffer drastic drops in individual and family income, but while unemployed almost two-fifths who had savings used them up entirely. Of all those surveyed, 45% had lost their employer-paid health coverage, and over half of these members had no coverage whatsoever by the time of the survey. This meant that one-quarter in total had no health coverage at all. A great many told us of increased personal and family problems.

PRESERVE FSC PROGRAM AND RESTORE EB PROGRAM

The continued seriousness of the current unemployment situation makes the extension of the FSC program essential. Congress must preserve this program. It is an important and, at the moment, the only protection available to the long-term unemployed. More than 300,000 workers currently are receiving FSC, and another 265,000 workers per month are running out of regular state benefits. This program will continue to be essential as the unemployment situation is not expected to improve much in the next year. We urge Congress not to ignore the long-term unemployed, and not allow the FSC program to expire.

We also urge Congress to go beyond the FSC program and fully restore the Federal-State Extended Benefit program as well. The cutbacks mandated by the Omnibus Budget Reconciliation Act were inconsistent with the purpose of the federal-state unemployment insurance system. Restoring the integrity of the EB program will re-

quire several changes. This would include rescinding the increases in the rates for individual states to trigger "on" the extended benefit program. The program for paying extended benefits in all states when the national insured unemployment rate exceeds 4.5% also must be revived. In addition, computation of the insured unemployment rate should include recipients of extended benefits, and should not be restricted to claimants receiving regular state benefits.

RECENT PROPOSAL ENCOURAGING BUT OVERHAUL OF SYSTEM NEEDED

Rescinding cutbacks in state and national extended benefit programs and extending the FSC program will afford unemployed workers some income protection they require while unemployed due to forces outside their control. However, Congress must go further than rescinding cutbacks in order to help the unemployed. The need for a better program is clear.

We certainly are encouraged that members of Congress also recognize this need. Last year Representatives Stark, Pease, and Kaptur introduced the Extended Unemployment Compensation Act of 1983—H.R. 3863. This bill would, among other things, combine the EB and FSC programs into a single program. The establishment of a program that would expand automatically as unemployment rose, would be a significant improvement in the current system. This also would be true of the lower benefit threshold levels and the use of the total unemployment rate. However, this proposal does not go far enough. What really is needed is an overhaul of the system.

The UAW has long called for an overhaul of the unemployment compensation system. We supported the creation of the National Commission on Unemployment Compensation in 1976. Regional Director Ken Morris, a member of the UAW International Executive Board until his retirement in 1983, served on the Commission alogn with other labor representatives and representatives from the business community and the public sector. The UAW presented to the Commission a comprehensive proposal that remains fully relevant today; we urge its careful study by members of this Subcommittee, as well as a full review of the Commission's complete recommendations. We also refer members of the Subcommittee to the appendix attached to this statement for a full list of recommendations adopted by the 27th UAW Constitutional Convention, May 15–20, 1983. The following discusses in more detail a number of those recommendations as well as some additional suggestions.

ESTABLISHING A PERMANENT SYSTEM

In the course of its deliberations the National Commission concluded that the current set of UI programs simply could not adequately protect unemployed workers during economic downturns. In its final report the Commission therefore recommended a permanent two-tier supplemental extended benefit program that would trigger "on" both on the state level and on the national level. Up to 52 weeks of benefits would be paid when the state insured rate reaches 4.5 percent or when the national insured rate reaches 5 percent. Up to 65 weeks of benefits would be provided when the insured rate reaches 5.0 percent on the state level or 5.5 percent on the national level.

During the two recessions of the 1970s, legislation was enacted to extend unemployment benefits for durations of as long as 65 weeks. Benefits were extended for an additional 13 weeks, up to a maximum of 52 weeks, between January 1972 and March 1973. Benefits became payable for an additional 13 weeks to exhaustees of extended benefits between January and March 1975, for 26 additional weeks (up to 65 weeks) between March 1975 and March 1977, and for 13 additional weeks (up to 52 weeks) until January 1978. The 13 additional weeks of potential benefits payable between April 1977 and January 1978 were financed by general revenues.

Despite the fact that the job prospects facing today's unemployed are bleaker than they were in the 1970s because of recent significant and permanent changes within the economy, benefits are available for a shorter duration. With the EB program inoperative, the maximum length of time benefits are available is 40 weeks, 25 weeks fewer than in 1975.

The UAW advocates a permanent program to provide a maximum benefit duration of 65 weeks when unemployment at the national level exceeds the 4 percent goal set forth in the Full Employment and Balanced Growth Act of 1978, and 52 weeks otherwise. Such a permanent system will be responsive to workers' needs and will eliminate the suffering caused by the lag between the need for benefits caused by rising unemployment and Congressional action required to meet that need.

NEED FOR BASIC MINIMUM BENEFIT STANDARDS

Today's benefit levels are inadequate. The small proportion of jobless workers receiving benefits are experiencing a major deterioration of living standards, the very condition unemployment insurance is intended to prevent.

As stated earlier, weekly benefits across the states replace only about 40% of the average worker's wage. This is far too low. It has not prevented a drastic cut in living standards or forestalled extreme deprivation for many jobless workers. Furthermore, completely left out of this wage replacement rate are fringe benefits such as health insurance, pension rights, and other benefits which are just as much a part of a worker's compensation as the wage itself.

The UAW reaffirms its support for the National Commission's recommendation that for a state to have an approved UI law it must establish minimum benefit standards. We urge the adoption of benefit standards of at least two-thirds of a worker's wage up to a maximum amount which should not be less than 75% of the statewide average wage. We believe that any standards less than this would be inadequate.

GUARANTEEING BENEFITS DURING TRAINING

Worker retraining needs are enormous. Recession, import penetration, and technological change have caued an unprecedented number of workers to permaently lose their jobs. Even in the best of times there are hundreds of thousands of workers who lack the skills to compete in the labor market.

Many workers, however, cannot participate in training programs because they lack the financial resources to support themselves and families while in training. At present, training under the Job Training Partnership Act (JTPA) restricts the payment of stipends and allowances. While the UAW continues to urge Congress to remove restrictions under JTPA, we also would urge Congress to guarantee the payment of UI benefits to workers in training programs.

Many workers in training programs are denied benefits under the "available for work" requirement imposed by the states. Few states have implemented laws "on the books" to permit claimants in "approved" training to draw UI benefits. Disqualifying workers for participation in training programs is very short sighted. Providing benefits during training will pay off in low future UI costs as workers gain the skills needed to secure long-term jobs.

PROBLEM OF STATE DEBT

States continue to face financial difficulties. The UAW urges Congress to deal fairly with these difficulties by enacting legislation that would reimburse the states for the exessive costs generated by high unemployment associated with the last three recessions.

As of July, outstanding loans to the state trust funds plus interest due on those loans totaled nearly $11 billion, including over $7 billion owed by the hardest hit states of Illinois, Michigan, Ohio, and Pennsylvania. The heavy indebtedness of these and other states cannot be attributed to fiscal mismanagement, laxity, or irresponsibility. The fault lies with the massively high unemployment rates imposed on these states by national economic policies aimed at fighting inflation, and skyrocketing imports which the federal government does little to regulate.

Moreover, because of continuing indebtedness many states have been forced to take actions which have further exacerbated the problems of the unemployed. In an effort to cut costs a number of states have adopted harsh qualifying requirements. In Michigan, for example, the qualifying requirement has been raised to 20 weeks of employment from 16 weeks, up with earnings of $100 in each week, up from $60. These changes occurred in the state where unemployment has not been below the double digit level in 4½ years.

The toll on the states has been heavy and the federal government should pick up its share of the responsibility and the costs. Congress should, at the very least: (1) Forgive interest due states in regard to these debts. (2) Recalculate the debts, from 1974 to date, to eliminate any debts incurred by states as a result of having to pay increased state benefits due to federally encouraged programs, such as weeks beyond 26 in most states. (3) Give states credit, from 1974 to date, for the portion of administrative costs incurred by states in administering joint federal-state programs, trade act programs, and other federally-mandated or federally-encouraged programs. It is unfair for Congress, having encouraged and at times required states to participate in various federal programs, to then penalize states which inccurred

debts as a result of cooperating with the federal government and then compound it further by charging states interest on state debts.

SOCIAL SECURITY OFFSETS AGAINST UNEMPLOYMENT INSURANCE

In addition to urging broader and more comprehensive coverage in UI programs, the UAW urges Congress to reverse restrictive Department of Labor interpretations which have created inequities in the UI treatment of Social Security retirees. In 1980, Congress attempted to ameliorate some of the harsher effects of the UI pension offset provision of the FUTA, 26 U.S.C. Section 3304(a)(15). In passing these amendments (P.L. 96-364, Section 414(a)), Congress permitted pension recipients to get full UI benefits if they were not receiving pensions financed by the same employer who was financing their UI benefits. Unemployment insurance benefits were to be offset only by pensions contributed to by a base period employer or chargeable employer.

Congress' intent was clear in passing the 1980 amendments. For example, the Ways and Means Committee Report on the House version of the amendments stated:

"That is, a worker who has demonstrated attachment to the labor force by working enough to qualify for U.I. benefits subsequent to qualifying for some kind of retirement income, who then becomes unemployed and meets appropriate work search requirements should not be denied full U.I. benefits. H. Rep. 96-538, 96 Cong, 1st Sess. 6 (1979)."

Likewise, Senator Levin's comments on the House bill later passed by the Senate show that Congress intended to assist retirees who worked after retirement.

"A person who is receiving a pension from an employer and who then returns to the workforce and qualifies for unemployment compensation should be allowed to draw that compensation as long as it is not based on the contributions of the employer from whom that worker is receiving a pension. 126 Cong. Rec. S2109 (daily ed. March 4, 1980)."

In the case of Social Security Retirement and Railroad retirement benefits, the Department of Labor issued a directive to the states (UIPL No. 7-81) requiring that these benefits be offset against UI benefits in every case, even when the retiree had obtained qualifying UI employment after retirement. As a result, thousands of retirees who find new employment after retirement and are then laid off have their UI benefits denied or greatly reduced despite the fact that their UI benefits were not financed by the employer from which they retired.

Unfortunately, the courts have not found the language of the 1980 amendments clear enough to give effect to the Congressional intent. As a result, a further clarification of the FUTA language on pension offsets is needed by overturn the restrictive Department of Labor interpretation requiring UI offsets against all Social Security and Railroad Retirement pensions.

WORK SEARCH AND JOB POSTING FOR EXTENDED BENEFITS

A second example of DOL's overreaching can be found in the EB work search rules it has required states to follow. In 1980, Congress tightened the work search rules it has requirements for the EB program as part of the 1980 Omnibus Budget Reconciliation Act, P.L. 96-499, Section 1024. Congress sought to deny EB to claimants who refused offers of suitable work. To protect claimants, however, Congress required that a disqualification for a refusal of suitable work would not occur "if the position was not offered to such individual in writing and was not listed with the State employment service." Section 202(a)(3)(D) of the Federal-State Extended Unemployment Compensation Act of 1970, 26 U.S.C. Section 3304, note.

Despite this language, the DOL has required states to disqualify claimants who refused offers that were made in writing *or* listed with the state agency. UIPL No. 14-81, Change 2 and GAL No. 21-81. This action by DOL contravenes the statutory language, reduces the protection to workers, and unlawfully cuts off EB to many claimants who are, in reality, seeking suitable work. Congress should require the DOL to carry out the protective intent of the EB job posting law.

FULL UI COVERAGE ON NONPROFESSIONAL EDUCATION EMPLOYEES

For several years, Congress has tired to deal with the problem of UI for nonprofessional education employees during summer recesses and other school year breaks. Congress passed legislation regarding these claimants in both the 1983 Social Security Amendments and in the 1982 TEFRA. The UAW supports the payment of UI benefits to all nonprofessional educational employees during summer recesses when

the employees is not offered summer work and has no contractual or written assurance of employment in the Fall term.

Under current law, states are mandated to deny benefits to nonprofessional school employees during breaks and summer recesses, if there is a "reasonable assurance" that the employee will continue to work for the school in the upcoming term. If it turns out that the employee is not offered work in the next term, a retroactive payment of benefits is made.

Educational locals affiliated with the UAW have found two major problems with this arrangement. First, the state agencies take an extremely lenient view as to what amounts to a "reasonable assurance" or reemployment. Second, a retroactive payment of benefits is not adequate to preform the wage substitution purposes of unemployment insurance. The time the unemplomemt insurance benefits are needed is during the summer, and retroactive benefits cannot adequately serve the purposes of unemployment insurance benefits. Certainly, tenured professional employees who are paid on a twelve-month basis should arguably be denied unemployment insurance benefits during summer recesses. However, Congress has overreacted to this problem by unfairly treating nonprofessional school employees. The UAW urges Congress to require that a "reasonable assurance" of employment be in writing before it can form the basis for denial of benefits during the recesses and breaks.

In conclusion, the UAW appreciates this opportunity to share with this Subcommittee our views and suggestions on the unemployment insurance system.

Appendix

(Program for Reforming the Unemployment Insurance System Adopted by the 27th UAW Constitutional Convention, May 15–20, 1983)

I. FEDERAL CHANGES

1. Provide federal unemployment benefits for up tp 65 weeks for persons in high unemployment areas.
2. Reduce the state trigger for federal benefits to about 4 percent of unemployment, which is consistent with the full employment goals of the Humphrey-Hawkins bill.
3. Again include in the term "unemployed" those who received federal unemployment benefts.
4. Restore the national trigger for federal unemployment benefits.
5. Eliminate the requirement of an active job search for federal benefits, when such requirement is waived for state benefits, because such job searches are futile due to high unemployment levels in certain states.
6. Institute a cost-equalization or reinsurance type program.
7. Remove unemployment compensation accounts from the unified federal budget.
8. Increase the Federal Unemployment Tax Act (FUTA) taxable wage base.
9. Establish federal basic minimum benefits standards.
10. Institute a reinsurance program to ease the financial burden on state trust funds of high unemployment which individual states cannot control.
11. Repeal the unjust income tax on unemployment and trade act benefits, unless there is comprehensive and equitable reform of all tax provisions.
12. Repeal the federal law, which forces states to offset pensions and social security benefits against unemployment insurance benefits.
13. Eliminate the tax deduction for any expenses, legal and otherwise, incurred in litigating social service issues such as labor and unemployment insurance issues.

The UAW urges no further federal unemployment insurance cutbacks. If Congress does consider federal unemployment insurance legislation, then it should largely follow the Report of the National Commission on Unemployment Compensation. That Report favored many of the above UAW proposals.

II. STATE UNEMPLOYMENT INSURANCE PROGRAMS

A. Provide adequate benefit levels

1. Weekly benefit amount of not less than two-thirds of claimant's average weekly wage.
2. A minimum of 75 percent of statewide average weekly wage.
3. Partial benefit formula that allows for work-sharing.
4. Include medical and hospital insurance along with the dollar benefits provided by unemployment insurance.

5. Increase the present limit on the duration of regular state benefits from 26 to 52 weeks. There should be an automatic extension of benefits in periods of high unemployment.

B. Eliminate harsh disqualifictions and unfair eligibility requirements

1. There shall be no disqualification in the case of voluntary quit for "good cause,"including sexual harassment and compelling family circumstances.
2. Any disqualification for "misconduct" should mean misconduct related to the claimant's employment, and the duration of the penalty should be variable depending on the severity of the action.
3. End the disqualification of workers who are involuntarily unemployed as a result of labor dispute, if the dispute is one in which they have no direct interest or is a lockout initiated by the employer.
4. The meaning and application of the "suitable work" provisions should be decided on a case-by-case basis under state laws. When the claimant has a reasonable assurance of recall by a base period employer or occupation, the claimant should not be disqualified for refusing another job offer during the first six weeks of unemployment.
5. Eliminate specific "actively seek work" and availability for work requirements and instead require job search efforts by the claimant that are appropriate in light of such relevant factors as the hiring practices of the claimant's industry, the local market conditions of the claimant's occupation, and the claimant's particular circumstances.
6. Disqualification penalties should not include a reemployment and earnings requirement and any disqualification should apply only to the separation from most recent work.
7. Individuals should continue to be eligible for benefits if they become temporarily ill or temporarily disabled after they have filed a claim, provided there is no suitable work offered to them and they are not receiving disability insurance payments for the same capacity.

C. Provide fair hearings and assistance to claimants

1. Take all necessary steps to ensure that every element of a fair hearing is provided to both employees and employers who are parties to an appeal.
2. Permit all parties to any hearing or appeal process to have representatives of their own choosing, whether or not such representatives are lawyers.
3. Provide that a labor organization have notice and an opportunity to be heard in any case involving one of its members. It should be especially required that the union of a claimant be notified whenever a claim is denied or where a union contract issue is involved.
4. Provide for acceptance of appeals filed late for reasons beyond appellant's control for good cause, as the state so determines.
5. Information on rights. Clearly advise all parties of their rights in language which is understood by the parties.
6. Establish a toll-free hotline to enable claimants and employers to present questions, including questions about their individual claim and rights.
7. State agency UC libraries or library sections that are now usually available only to state personnel should be open to claimants, employers, and their representatives.
8. Establish an office of ombudsman to provide claimants and needy employers assistance and counseling and provide for claimant advocates to appear before hearing officers and boards.

D. Job service and employer responsibilities

1. A public, non fee-charging employment service should aid all persons seeking assistance in obtaining employment. Employers should be required to list all job openings, otherwise they should loose their unemployment tax credits.
2. Increase efforts to reduce employer fraud and to recover employer taxes.

STATEMENT OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

The National Association of Manufacturers is a voluntary business association of over 13,200 corporations, large and small, located in every state. Eighty percent of the firms are considered to be small businesses. NAM member companies employ 85 percent of all workers in manufacturing and produce over 80 percent of the nation's

manufactured goods. NAM is affiliated with an additional 158,000 businesses through its Associations Council and the National Industrial Council.

On behalf of our members, the National Association of Manufacturers is pleased to submit our views on proposals to improve the unemployment insurance (UI) system.

The NAM believes that far reaching changes in the structure of the UI system are unnecessary. There should be an examination of the cost and effectiveness of some to the extended benefits programs, a decrease in federal involvement in the system, and a renewed effort to halt abuse and overpayment of benefits. Our main concern is that the UI system remains targeted to accomplish its original objectives.

The objectives of the UI systems are fairly simple. Unemployment insurance is designed to serve the needs of workers genuinely part of the workforce, who are temporarily and involuntarily unemployed for job-connected reasons. Those individuals receiving assistance should be actively seeking employment while receiving benefits. The dynamic nature of our industrial economy may bring cyclical periods of involuntary unemployment. UC sustains the purchasing power of individuals who are out of work, cushioning the decrease in the demand for goods and services and thereby preventing secondary or tertiary levels of unemployment. For these reasons, UC is beneficial to employers and the cost of benefits may rightly be treated as a cost of doing business.

This is how the UC system was conceived in 1935; however, the system now has strayed to where it produces ever increasing demands for federal revenues financed by onerous taxes on employers resulting in higher budget deficits and disincentives for continued economic growth.

The NAM believes that the UC systems should be returned to its original goals and the increasing federal involvement in the system should be limited. The responsibility for administration of sound public unemployment compensation systems should remain with the state governments. Federal legislative and administrative action already exceeds its proper scope.

Congress originally gave the states broad discretion to structure their individual state UC programs. The states may thus determine the amount and duration of benefits, conditions of benefit qualification and related matters. The state programs reflect the unique economic and social atmosphere of each state and respond effectively to cyclical variations.

State-administered unemployment compensation systems should provide reasonable benefits to the eligible unemployed. These benefits should not impair the incentive to look for and accept work. As a partial wage replacement program, benefits should not be adjusted on the basis of relief concepts.

The NAM believes that unemployment benefits should be related to earnings and service from previous employment and constitute a partial indemnity for loss of wages. Adjusting the amount of benefits on the basis of presumed or established "needs" is inconsistent with the purpose and philosphy of UC and must not be permitted. State-administered unemployment compensation systems should be fair to all and should provide reasonable benefits for all eligible individuals while preserving the incentive to look for and accept work.

We urge that Federal Supplemental Compensation (FSC) not be extended past March, 1985. Unlike the UC system, which is financed primarily by state and federal payroll taxes on employers, FSC is financed from federal general revenues. The FSC operates to provide 8 to 16 weeks of additional benefits to claimants who have exhausted benefits under the regular and extended benefits (EB) programs. The maximum duration fluctuates with the state insured unemployment rate (IUR).

If FSC is continued, eligibility should be conditioned on participation in a reemployment program providing intensive job search assistance, as well as referral to retraining for those claimants who are unable to find jobs with their existing skills. The National Job Training Partnership Act (JTPA) is an existing program which could provide such services for the structurally unemployed. The federal government provides funds for retraining, job search assistance, relocation assistance and other aid. The states determine who is a "displaced worker" by examining the effects of import competition, mass layoffs and plant closings.

The Act contains a framework in the Displaced Workers Title (Title III) which encourages states to offer placement assistance and training for the formerly employed whose skills must be updated in order to find new jobs.

States are required to match a portion of a federal grant, but the percentage is reduced for states experiencing high unemployment. A total of $223 million was budgeted for Title III in FY 1984 and a similar budget request was made for FY 1985.

In the past few individuals took advantage of training opportunities, in part because the availability of long-term UC benefits discouraged claimants from accepting permanent changes in the job market. Any further extension of benefit duration without mandatory job search or retraining will encourage workers to postpone adjustment to permanent job changes and thus defeat the intent of JTPA.

The NAM urges Congress to examine the results of Title III of the JTPA closely. This program could well be a substitute for long-term UC programs such as FSC, and allow the UC system to service the short-term unemployed.

Our nation has emerged from a debilitating recession marked by high unemployment rates. The economy has been revitalized and the August 1984 unemployment rate stands at 7.5 percent. There are now more Americans in the workforce than at any time in our history. The NAM believes we must encourage continued economic growth as the best long-term solution to the unemployment problem.

Employers have been subject to several increases in their Federal Unemployment Tax Act (FUTA) payments in the last decade. Some of the proposals before this Subcommittee in the areas of benefits duration, trigger mechanisms and unemployment measurements could lead to future increases in FUTA. The NAM believes that this would have a negative impact across the board. Employers subject to higher FUTA taxes would have less money to invest in plant modernization and retraining programs. Those without jobs would have less opportunity in such a stagnant economic atmosphere. The federal government would then have to expand additional federal revenues.

We oppose the diversion of UC trust funds for non-UC purposes and oppose automatic FUTA wage base increases.

Any approach to the problems of temporary, involuntary job-connected unemployment should aim to remove its causes rather than to simply allay its symptoms. The FSC and its predecessor the Federal Supplemental Benefits (FSB) program have left the Extended Unemployment Compensation Account billions of dollars in debt. Net federal advances to states that have depleted their benefit reserves have continued even with our recent economic growth. Increasing or extending FSC will only drain revenues further and prevent repayment of state debt and increase financing problems.

Since 1982, borrowing states have been required to pay interest on federal advances. Though some borrowing states have qualified for deferral of interest due, most states have continued action to restore solvency. The current Department of Labor (DOL) debt repayment forecast appears promising. According to DOL, of the 16 states repaying loans through reduced FUTA credits, all but three are expected to complete repayment by 1989. A vital economy may accelerate those repayments.

The continued improvement of the UC system cannot be accomplished without making every effort to identify fraud and abuse within the system.

Overpayments have been estimated by the DOL's random audit program to be as high as two billion dollars. The very integrity of the UC system is challenged by this abuse. The NAM supports the quality control that DOL is formulating to detect and correct overpayments.

The NAM opposes H.R. 3863, the Extended Unemployment Compensation Act of 1983 introduced by Reps. (Stark, D–CA; Pease, D–OH; and Kaptur, D–OH) which would overhaul the federal programs of extended and supplemental unemployment compensation. This would be accomplished by abolishing the distinction between EB and FSC, and allowing one permanent extension of up to 35 weeks for claimants who exhaust state benefits.

H.R. 3863 would raise the cost of EB and shift a substantial part of the cost of FSC from federal general revenues to state and federal unemployment tax revenues. This would reverse the current FSC provisions requiring complete funding from federal general revenues.

The result of this shift of revenues would be an increased drain on the Unemployment Trust Fund and increased costs to States, employers, the federal government and taxpayers.

H.R. 3863 would increase the potentiality of extended benefits for claimants and may dissuade a claimant from serious employment efforts until benefit exhaustion. Business would be adversely affected as well. With increased payroll tax responsibility, the new system would make it more difficult for business to maintain and expand employment.

The UI system has achieved many of its original goals. Workers are compensated for periods of temporary involuntary job-connected unemployment. There is in turn an incentive for employers to stabilize employment and a cushioning effect on the economy during recessionary periods.

The UI system should not be weakened by additional burdens such as permanent extended benefit programs. Administration of these programs should remain with the states. Fraud and abuse within the system cannot be tolerated.

The NAM urges Congress to examine alternatives to long-term benefit programs, such as the JTPA and provide incentives to return to work rather than lengthen the duration of unemployment eligibility.

It should be realized that the most important overall goal that employers and employees share is a strong and vital economy. It is only with a favorable economic atmosphere that job opportunities will be available and the need and cost of the entire UC system significantly reduced.

The NAM would like to take this opportunity to commend the Subcommittee for scheduling this hearing. The unemployment insurance (UI) extension system generally and the Federal Supplemental Compensation specifically are programs of great concern to the manufacturing community. There are important issues inherent in our current UI system which must be addressed in order to effectively serve the involuntarily jobless workers for whom the system was designed. Our members, large and small, have a particular interest in the UI system and its maintenance since it is largely financed by employers, in addition to some general federal revenues. We support a sound unemployment compensation (UC) program.

Statement of the New York State Department of Labor

The Federal-State partnership that has worked effectively for nearly half a century has recently become seriously flawed. The problem has three aspects:

(1) Financing.

(2) Programming.

(3) Federal/State relationship.

The administration of the unemployment insurance program is funded by tax receipts collected by the federal government from the nation's employers. Congress then makes an appropriation for the administration in each of the states as a part of the budget process. This appropriation is then allocated among the states by the USDOL.

While the allocation of funds should be related to the actual costs of administering the U.I. system, the present process is a series of arbitrary estimates in key areas and results in a serious underfunding of the system. The result has its effects in poor services to those entitled to benefits, and inadequate protection of the unemployment funds entrusted to the states for the paying of benefits.

NONPERSONAL SERVICES FUNDING

The problem of funding deficiencies for the U.I. program has two distinct parts: a staffing issue which derives from an estimate of the claims work load to be processed, and funding for Nonpersonal Services requirements—rents, telephones, supplies, travel, etc. Though the two are separate issues, the funding process unrealistically ties the two together. Congress has recognized this problem and has appropriated supplemental funds as a temporary remediation for the Nonpersonal Services. The time has come for a more permanent solution. This must address funding and nonpersonal services on the basis of a realistic budget estimate which will be adequate to support the essential nonpersonal framework in each State.

The current method of funding Nonpersonal Services is unrelated to lease commitments, expanded automated data processing, telephone requirements, or similar fixed needs for which a State may be obligated. Rather, in the past few years the Department of Labor increasingly has apportioned these funds in direct relationship to the number of base staff positions. Thus, the funding for premises is unrelated to the determination of the number of offices required to serve the unemployed over a period of time. The formula presumes unrealistically that rental space can be expanded and curtailed within a short period of time in direct proportion to the number of claimants immediately served. Funding has been reduced despite escalating rental charges, a computer network which cannot be contracted, increasing telephone charges for a system made more flexible and costly by fundamental changes in the telephone industry, and a failure to recognize that most other Nonpersonal Services obligations do not relate directly to the number of staff nor the number of claimants immediately served.

New York State suffers particularly when the proportion of total claims loads which is funded in the additional contingency increases, since Nonpersonal Services funding for those work loads has been, until recently, a flat 7% of additional Personal Services requirements. Effective April 1, 1984, this percent increased to 12%,

but it is an amount still inadequate under a method of funding unrelated to actual needs and costs.

In funding the activities of any organization, there must be a recognition of those costs which are "fixed" and those which are "variable". Fixed costs may be viewed as "going concern" costs and are a function of time, not work load. They include space in which services are provided, computer networks which must remain regardless of the number of claimants served, most communications costs, and similar necessities for providing locations and facilities for serving the unemployed. At the same time, there are some costs—forms, supplies, etc.—which vary in direct relation to claimants served. Even here, however, orders are placed in advance of the use, and the savings are in the extension of the re-order period, rather than directly to claims currently processed.

It is recognized, of course, that to classify a cost as "fixed" does not make it uncontrolled. Rather, fixed costs are controlled in a different manner than are variable costs. Variable costs are controlled with reference to work load. Fixed costs are controlled in reference to level of operation over a period of time.

The Employment and Training Administration, in its Employment Security Manual, has defined several criteria as guides for obtaining local office premises and facilities. (Sections 9000–9060). These stress the importance of adequate premises to meet foreseeable work loads. "Local office premises should be established with a view to future, as well as current requirements." "Judgment as to space required should be based on three considerations: (a) work space, (b) public waiting space, and (c) minimum service facilities warranted for the size and program of the office." "Planning of required space and facilities should be based on an estimate of work loads for a reasonable period in the future." "Space planning may involve the following considerations: . . . the pattern of recurring annual high levels of work load."

Futhermore, these sections of the ES Manual suggest specific footage allowances for various defined activity areas in various sized offices, including general work areas, public waiting areas, and a variety of service facilities including manager's office, hearing rooms, conference room, testing room, group Benefit Rights Interview room, stock and storage area, janitor space, and multi-purpose rooms in small facilities.

The Federal Employment and Training Administration apparently is unwilling to acknowledge that these standards, which are included in its own manual, are the basis on which space for serving claimants should be supported.

Thus, fixed costs must be viewed more as incremental than as related to current work loads. If, over a period of time, the work load projections indicate significant probable changes in the number of claims processed, careful planning dictates that the number of fixed requirements—office locations, computer capacity, etc.—must be reviewed. Such adjustments, however, are possible only in incremental steps, and must take place over an extended period of time, probably not less than two or more years.

NONPERSONAL SERVICES FUNDING RECOMMENDATION

Nonpersonal services funding should be made on a budgeting basis and removed from the illogical tie to estimated work load. The budget should be developed by requiring states to estimate their needs for space, communications, automation, etc., which will then be used to develop the Secretary of Labor's budget request.

STAFF FUNDING

The funding mechanism to staff the unemployment insurance program is unique in governmental operations. It is designed to provide both stability so that there is a base cadre of seasoned staff and the elasticity to expand or contract with the changing numbers of claimants who need services. The funding for personal services takes place in two steps:

Base funding provides a minimum and stable level of program and administrative staff necessary to meet a portion of the total expected work load, and provides for other basic elements to administer the Unemployment Insurance Program.

Contingency funding provides additional funding for that portion of the work load which is above that estimated in the base. This funding is predicted using lower allocation criteria and fluctuates as work loads rise or fall during the course of the year.

Base funding is made on the premise that it will provide sufficient resources to support the minimum number of experienced staff who provide the program with continuity of operation and stability without regard to fluctuations in the work load.

In contrast, contingency funding is based on the premise that when work loads exceed base entitlements, temporary, part-time and transitional staff will be added to the base cadre to handle the excess work load. The funding elements are reduced and less funds are available for this temporary staff and their training and supervision. Thus, the projection of total expected work load, which is funded at the base level, is critical because the allowable salary factors and nonpersonal service factors are lower for the contingency work loads than those in the base.

WORKLOAD FORECAST

Work loads for the budget period are estimated several months in advance of the 12 month fiscal period for which funds are to be made available. These work load forecasts are based on projected labor force data, additional factors affecting the Unemployment Insurance Program, and the historic relations between a variety of economic indicators. Historic data series are developed and used in a relationship drawn between the projected data items to develop specific elements for the forthcoming budget period. Forecasts are made for the various work load elements including the number of benefit payments, original claims and additional claims. State forecasts are reviewed by and put into the projections of the National Office of the Federal Employment and Training Administration. Work loads are then apportioned among the states and a general relationship between state forecasts and national estimates is developed. The ETA estimate in turn is accommodated to the economic projection of the President's Council of Economic Advisors and other national administrative office sources. These estimates then become the basis from which the "Base Claims Load" is funded. This logical and rational staffing process is subverted in four ways. The "rational" process is first subverted by an artificially depressed estimate that only 2.1 million weeks of unemployment insurance will be claimed. This 2.1 million level figure has been held steady since 1977 except for 1980 when it was reduced to 1.9 million. These are unacceptably modest estimates.

THE MINUTES PER UNIT FUNDING PROCESS

The Unemployment Insurance Program is funded under a piece-work arrangement. Each state maintains a system to measure work and analyze unemployment insurance activities. A detailed analysis is made of the components of each individual operation. The result is a fully documented indication of the time a trained staff person requires to perform each major element of the unemployment insurance activities, which are expressed in Minutes Per Unit of the identifiable work load (MPU). The MPU are then applied to estimate work loads which then determine the agency's staffing needs.

NATIONAL COST MODEL STUDY

To determine the appropriate Minutes Per Unit time factor, the Secretary of Labor has developed a nationwide program which includes estimates of the costs for administering each state's program within its legal and statutory requirements. These so-called "Cost Model Studies," which, in essence, are time and motion studies, break down in detail the components which are necessary to complete the major activities. These studies are closely monitored and reviewed by staff of the U.S. Department of Labor. They go through a validation process. They reflect the full time required to process claims or appeals expeditiously while maintaining program integrity and appropriate controls. The "rational" staffing model is subverted a second time when the carefully validated cost model estimates are arbitrarily reduced by the U.S. Department of Labor. In New York, as with many other states, this amounts to a 20% reduction.

This 20% amounts to more than 430 staff years (the difference between the Cost Model-developed factor and the actual MPU assigned by the Secretary of Labor). This number of positions is the difference between a quality operation and mere survival from day to day. For New York, when multiplied by the average annual salary of $29,189, it represents $12,600,000 by which our Unemployment Insurance program was short-changed in 1984.

RECOMMENDATION TO IMPROVE STAFFING

To lessen the uncertainty that is introduced into the budgeting process for all states, it is recommended that base funding be established at 75% of the total expected work load for each state with some higher guarantee for states where the work load may reflect significant quarterly changes. This would substitute for the present process where the administration proposes a specific number of claims in

the base and imposes an artifical ceiling on work load estimates. This will remove the third subversion of the "rational" process where a state receives its proportional share of a national pool of staff rather than the staff justified by, and necessary to meet, a projected work load. Recently, states such as New York with a relatively stable work load, have received fewer base positions despite the fact that their work load was stable. This developed since their proportional share declined because national claims were increasing. This base should be calculated using the validate cost model estimates of the Minutes Per Unit rather than the deflated estimates that now cause substantial underfunding with its concomitant problems.

The fourth subversion of the "rational" staffing system occurs when the funding of work loads above the base through the contingency mechanism provides for only one-half the base level funding for support such as training, supervision, management, UI research, central office positions and at lower than the base level for Non-personal services allocations for rental, supplies communications and travel and at a much lower annual salary based on the premises that only temporary, part-time, or other positions with other than permanent status will be utilized to process work loads above the base.

This mechanism presumes that program management, supervision, training, etc., vary with work load and, furthermore, that these needs are less when a large number of seasonal, part-time, hourly untrained individuals are recruited in significant number.

This assumption is unreasonable.

Most managers—whether in the public sector or the private—would agree that closer supervision and more training are required for overseeing the work of large numbers of people unfamiliar with normal operating and procedural requirements.

The funding to support these supervisory and other activities should be at the same rate as for base staff.

PROGRAM IMPROVEMENTS

Training extension

We suggest a national program which would extend Unemployment Insurance Benefits for Dislocated Workers who attend approved training. Because of changes in technology and the emergence of a world economy, there has been a decrease in the number of industrial employment opportunities nationally. Many workers find themselves attempting to re-enter the labor market with obsolete job skills and limited opportunities for re-employment. The Job Training Partnership Act provides opportunity for Dislocated Workers to learn the skills necessary to compete in our changing economic structure, but it does not provide a way for workers to meet their non-deferrable living expenses.

We propose a national program to supplement existing programs which would be designed to encourage the early entrance into approved training so that they can be returned to the labor market and the dignity of work with marketable skills. This would be done simply by providing all claimants with an extensive eligibility review early during their period of entitlement to determine their realistic prospect for re-employment. Those individuals with no previous attachment to employment, and with limited occupational skills, would be referred to the appropriate agency for training funded by JTPA. Determination will be made as to how many weeks of benefits he has entitlement to when an individual actually initiates training. To encourage dislocated workers to commence training as quickly as possible, subsequent to a determination of their eligibility to participate, benefit extensions would be of a variable duration with a maximum of 13 weeks.

A training extension would be equal to the number of weeks remaining in a claimants basic unemployment insurance claim at the time training is actually entered. For example, were a claimant to enter training in his 15th week of unemployment insurance benefits, the claimant would have 11 weeks of training extension. We feel that this proposal would permit training to become a viable alternative for dislocated workers, and it would also improve the completion rate of those individuals who enter training.

Supplemental and extended benefits

We welcome the initiative of Congress in reviewing the temporary supplemental compensation program in conjunction with the established extended benefit program. The different triggers and benefit durations have added an unnecessary and undesirable complexity to the administration of the UI program. Because of the nature of our national economy, a federally funded program of extended benefits must be continued to help individuals whose unemployment results from recessions.

Because the different impact from the same recessionary period on individual states, and the national interest in minimizing the impact of a recession, federal funding of all or a significant portion of the costs of an extended benefits program is required.

It is equally clear that further study is required to determine the proper measures to trigger an extended benefit program. The triggers in the present extended benefit program failed to recognize the varying impact of individual states as the national economic downturn affected the various states.

We also should seek the causes of the growing divergence between the total unemployment rate and the insured unemployment rate.

In the nation and in New York, the difference between total unemployment insurance rate and the insured unemployment rate has increased significantly since 1965. Because the extent of coverage under extended UI programs is dependent on the insured unemployment rate, we attempted to analyze and explain the divergence that underlies the insured and total unemployment rate trends.

We found that the causes for the growing divergence are economic, administrative, and demographic.

Economic. The primary contributing factor has been economic conditions. The back-to-back recessions occuring in 1980 and 1981–82 have combined with a generally tighter labor market to prevent many jobseekers from finding employment of sufficient duration to qualify them for benefits. Evidence of this is the recent decline in the number of individuals who have filed new claims for U.I. benefits. In addition, there has been a recent increase in the rate in which U.I. beneficiaries exhaust their 26 weeks of benefit entitlement. If they remain unemployed they become a part of the UIR/TUR gap. The severe recession in the mid 1970's also altered the industrial composition of the state. As hundreds of manufacturing firms permanently closed their operations in New York State, thousands of workers were faced with little hope of ever returning to their previous occupations. While service industries grew to fill the void left by the departing manufacturing firms, many of these displaced workers were unable to make the transition from blue-collar occupations to other occupations. Many of these unemployed exhausted their U.I. benefits—continuing to be counted in the TUR but no longer a part of the UIR.

Administrative. The second most important element responsible for the broadening UIR/TUR has been changes in the rules governing the U.I. programs. Amendments to federal and state U.I. laws and changes in administrative policies have in some cases reduced the size of U.I. benefit checks. Some of these changes have diminished the incentive for certain individuals to file claims. An example of a legislative change that had the effect of reducing the number of claimants is the law that reduced U.I. benefits by a portion of employer-paid pension payments received by some claimants.

Demographic. Demographic variables have also had an important effect on the UIR/TUR relationship. Long-term changes in the composition of the labor force have swelled the ranks of persons looking for jobs. Much of this has been due to the influx of youth and homemakers into the labor market. Since most of these individuals have not had recent employment of sufficient duration to qualify for U.I. benefits, they are not counted in the UIR although they are included in the TUR.

FEDERAL-STATE PARTNERSHIP

The federal-state partnership was created by the Social Security Act of 1935. Its provisions encouraged each state to enact its own program within federal conformity provisions within areas where uniformity is considered essential while giving states latitude in other provisions. As a result, while conforming to the basic federal requirements, the laws of each state establish different administrative, eligibility, coverage, and benefit level and duration standards. Each state was to administer its own program.

This partnership is no longer a partnership of equals. Within the federal-state arrangement, each partner has assumed important responsibilities. While the program costs—the funds for paying benefits to unemployed workers—are raised by State taxes on covered employers, the costs administering each state's program are met from revenues collected by the federal government under the Federal Unemployment Tax Act (FUTA). Although the receipts from this separate tax on employers go into a special fund, the FUTA receipts are appropriated by Congress as part of the budget process. Within these appropriation levels, funds are apportioned to the states by the U.S. Department of Labor under mechanisms based on expected work loads and pre-determined time factors within which identifiable units of work loads are expected to be accomplished.

There are some fundamental differences in the approach to administration between the states and the U.S. Department of Labor. States must be concerned with the delivery of services to individuals; the Department of Labor works within a national picture, with primary emphasis on dollars expended. There is an increasing reluctance, furthermore, by ETA to consider the needs of individual states based on the laws, philosophical methods of claims control, and service delivery mechanism in individual states. Yet these differences have provided one of the underlying strengths of the Federal-State Employment Security System.

Underlying many of these differences between states and ETA is an increasing interest by ETA to develop formulae for the distribution of funds rather than to review and support the needs of each state based on program and legal consideration.

The federal partner no longer seems to want to continue its customary role in insuring an adequate funding base for the program. Distribution by formula makes budgeting easy. It makes its impersonal. It drives each state to a nationwide average cost. It eliminates the need to consider services to individuals.

It also, however, fails to reflect the inherent flexibility built into the system in 1935 when states were given wide latitude to develop UI systems to meet their own specific needs so long as they remained within the basic conformity criteria.

The Federal Partner has begun to intrude itself into such state issues as to what categories of workers are entitled to coverage within the state's system and to remove some of the traditional roles of the state partners. We suggest that this intrusion is an unwarranted invasion of the integrity of a state-operated U.I. program. Such issues as whether or not school employees or professional athletes would be covered within the system should be left to the determination of a state legislature.

CONCLUSION

We thank you for the opportunity to provide your body with our input which we hope will be useful to you in improving the U.I. partnership that has worked successfully to cushion the effects of joblessness on workers during a period of economic downturn. We feel that our suggestion to improve the funding process for staff and nonpersonal services are necessary and reasonable. In your efforts to improve the programs, which supplement basic entitlement during a period of unusual economic downturn, we hope that you will consider the need of dislocated workers for training and support our suggestion for a program to provide a way to meet continuing obligations during a period of training; without such support, dislocated workers in the prime of their working lives find it a practical impossibility to take advantage of the training opportunities provided under JTPA.

STATEMENT OF THE SERVICE EMPLOYEES INTERNATIONAL UNION, AFL-CIO (SEIU)

Service Employees International Union (SEIU) represents 850,000 workers nationwide, over 100,000 of whom are employed in schools. SEIU thanks the Subcommittee on Public Assistance and Unemployment Compensation for this opportunity to present our veiws on the denial of unemployment insurance benefits to nonprofessional school employees between academic sessions.

We believe that current federal law, which requires states to deny between terms benefits, arbitrarily discriminates against nonprofessional school employees. The rule is based, moreover, on the erroneous assumption that these workers are compensated between terms. Most important, this ill-conceived provision imposes serious hardship on thousands of unskilled school employees who actively seek but cannot find work between terms. This provision must be changed so that, at a minimum, states will have the option to grant between terms benefits to nonprofessional school workers.

The goal of the unemployment insurance system is to provide temporary income protection to involuntarily unemployed persons until they can be rehired or find new jobs. Extending between terms coverage to nonprofessional school employees would be consistent with this underlying purpose. To begin with, school employees are laid off during the summer through no fault of their own. Further, in order to actually collect benefits, these workers would still have to comply with the rigorous eligibility requirements imposed by state law. School employee claimants would thus have to show sufficient workforce attachment. They would also be required to look for and be ready to accept suitable employment.

Current federal law nevertheless precludes school employees from collecting unemployment compensation between terms, even it these people seek but cannot find work during such periods. The Federal Unemployment Tax Act (FUTA) requires

that states deny benefits between terms if school workers have a "reasonable assurance" that they will return to their old jobs at the end of the break. 26 U.S.C. Section 3304(a)(6)(A).

This provision is an anomaly and results in unequal treatment of school employees. Disregarding professional athletes, school workers are the only major category of employees subject to this "reasonable assurance" of rehire test under FUTA. Workers from any other industry may be granted benefits during layoffs, even where they are assured of being rehired when their employers' operations resume. Nor are seasonal employees, such as farm workers, subject to an assurance of reemployment restriction. The statute must be amended to assure that nonprofessional school employees receive equal treatment with employees who are similarly situated.

Further, we reject the argument that between terms denial is justified because nonprofessional school employees' school year income is intended to cover the entire calendar year. These employees, typically paid on an hourly basis during a nine or ten month school work period, are among the lowest paid workers in the country. Custodians, for instance, earned between $5.24 and $7.47 per hour during the 1982–83 school year, according to the Educational Research Servcie. During a nine month work period, this translates into a pre-tax salary of between $8,174 and $11,653. Most nonprofessional school workers earn even less than custodians (see attached tables). By contrast, the official "poverty line" for a family of four is currently set at $10,178 annually before taxes. In short, it cannot be reasonably argued that these workers' school year earnings are intended to cover non-work periods as well.

While these employees clearly need to work between terms, they have great difficulty finding employment during these periods. These generally unskilled workers are not qualified for many available jobs. These workers have the additional disadvantage that they must compete with young people during the summer for the temporary jobs that are available.

The federal prohibition against between terms benefits imposes severe hardship on those nonprofessional school workers who can't find between terms employment. SEIU locals are beseiged during these months with requests for help from unemployed school workers who can't make ends meet. Those families that depend on one school worker as their sole source of support are especially hard hit.

In an attempt to lessen the impact of the between terms rule, FUTA authorizes the payment of retroactive benefits in the event that a school employee is not rehired after a school break. 26 U.S.C. Section 3304 (a)(6)(A)(ii)(II). While we do not oppose this provision, we do not believe that it provides sufficient relief to an employee who is unable to find work between terms. The school employee in this situation faces *immediate* financial difficulties. Retroactive benefits, received 3–6 months after a layoff, arrive too late for many of these workers. The retroactivity provision is no substitute for equal treatment of nonprofessional school workers under FUTA.

In conclusion, the automatic denial of between terms benefits is grossly unfair. SEIU believes that federal law should *require* states to treat nonprofessional school employees like any other employees who are similarly situated. However, at this time, SEIU merely seeks to return to the law prior to 1983, when states had the option to grant or deny between terms benefits to nonprofessional school employees.

Thank you for this opportunity to present our views.

TABLE 1.—MEAN OF MEAN, LOWEST AND HIGHEST SALARIES PAID CLERICAL/SECRETARIAL PERSONNEL IN REPORTING SCHOOL SYSTEMS, BY ENROLLMENT GROUP, 1982–83

Position	Enrollment group				
	25,000 or more	10,000 to 24,999	2,500 to 9,999	300 to 2,499	Total—all reporting systems
	Mean of mean salaries paid				
Central office positions:					
Secretaries/stenographers	$14,650	$13,946	$13,499	$13,163	$13,639
Accounting/payroll clerks	14,156	13,734	13,596	13,543	13,676
Clerk-typists	11,839	11,493	10,520	10,014	10,930
School building level:					
Secretaries/stenographers (Not clerk-typists)	12,213	11,783	10,607	10,351	11,004
Library clerks	9,734	9,500	8,384	8,020	8,767

TABLE 1.—MEAN OF MEAN, LOWEST AND HIGHEST SALARIES PAID CLERICAL/SECRETARIAL PERSONNEL IN REPORTING SCHOOL SYSTEMS, BY ENROLLMENT GROUP, 1982–83—Continued

Position	Enrollment group				
	25,000 or more	10,000 to 24,999	2,500 to 9,999	300 to 2,499	Total—all reporting systems
	Mean of lowest salaries paid				
Central office positions:					
Secretaries/stenographers	10,875	10,928	11,329	12,284	11,433
Accounting/payroll clerks	11,041	11,392	11,982	12,788	11,927
Clerk-typists	9,429	9,697	9,622	9,704	9,628
School building level:					
Secretaries/stenographers (Not clerk-typists)	9,284	9,407	8,666	8,911	8,979
Library clerks	8,029	8,214	7,542	7,596	7,796
	Mean of highest salaries paid				
Central office positions:					
Secretaries/stenographers	19,496	17,706	16,238	14,116	16,402
Accounting/payroll clerks	17,740	16,335	15,262	14,348	15,580
Clerk-typists	14,449	13,142	11,427	10,442	12,260
School building level:					
Secretaries/stenographers (Not clerk-typists)	15,459	14,222	12,949	11,829	13,251
Library clerks	11,337	10,693	9,295	8,392	9,727

Source: Educational Research Service, Inc., "Wages and Salaries Paid Support Personnel in Public Schools, 1982–83."

TABLE 2.—MEAN OF MEAN, LOWEST AND HIGHEST HOURLY WAGE RATES PAID TEACHER AIDES, CUSTODIANS, CAFETERIA WORKERS, AND SCHOOL BUS DRIVERS IN REPORTING SCHOOL SYSTEMS, BY ENROLLMENT GROUP, 1982–83

Position	Enrollment group				
	25,000 or more	10,000 to 24,999	2,500 to 9,999	300 to 2,499	Total—all reporting systems
	Mean of mean hourly wage rate				
Teacher aides:					
Instructional	$5.66	$5.36	$5.17	$5.17	$5.28
Noninstructional	5.65	5.23	4.84	4.86	5.01
Custodians (not engineers)	6.16	6.39	6.23	6.12	6.23
Cafeteria workers (not supervisors)	5.22	4.93	4.78	4.81	4.87
School bus drivers	6.96	6.59	6.33	6.67	6.56
	Mean of lowest hourly wage rate				
Teacher aides:					
Instructional	4.74	4.60	4.57	4.75	4.64
Noninstructional	4.79	4.53	4.40	4.52	4.50
Custodians (not engineers)	5.01	5.30	5.28	5.21	5.24
Cafeteria workers (not supervisors)	4.28	4.18	4.09	4.28	4.18
School bus drivers	6.13	5.93	5.73	6.09	5.92
	Mean of highest hourly wage rate				
Teacher aides:					
Instructional	6.95	6.22	5.85	5.67	6.04
Noninstructional	6.93	5.92	5.41	5.22	5.63
Custodians (not engineers)	8.00	7.72	7.31	7.23	7.47
Cafeteria workers (not supervisors)	6.50	6.00	5.67	5.48	5.81

TABLE 2.—MEAN OF MEAN, LOWEST AND HIGHEST HOURLY WAGE RATES PAID TEACHER AIDES, CUSTODIANS, CAFETERIA WORKERS, AND SCHOOL BUS DRIVERS IN REPORTING SCHOOL SYSTEMS, BY ENROLLMENT GROUP, 1982–83—Continued

Position	Enrollment group				
	25,00 or more	10,000 to 24,999	2,500 to 9,999	300 to 2,499	Total-all reporting systems
School bus drivers	7.82	7.31	6.88	7.24	7.20

Source: Educational Research Service, Inc., "Wages and Salaries Paid Support Personnel in Public Schools, 1982–83."

STATEMENT OF RALPH CANTRELL, COMMISSIONER, VIRGINIA EMPLOYMENT COMMISSION

I am Ralph Cantrell, Commissioner, Virginia Employment Commission. I would like to thank you for the opportunity to address a serious concern regarding the federal-state unemployment insurance system. While I plan to specifically address Virginia's concerns, I do so with the knowledge that these concerns are similar to those expressed by most, if not all, state administrators throughout the country. These administrators are charged, as I am, with the responsibility of assuring a quality, cost-effective unemployment insurance program while facing continuing inadequate administrative financing necessary to realistically accomplish this objective.

Because of this inadequate funding every state is dangerously close to gambling away the quality, cost-effective program that has been the mainstay of the unemployed for nearly a half century. Moreover, there is a great risk of losing employer confidence because we will be unable to insure that the tax revenues in the Unemployment Insurance Trust Funds are managed properly.

I want to express two primary concerns about the administrative funding of the federal-state unemployment insurance system. First, there is significant underfunding of permanent staff to operate the system. Second, there is a most inadequate and unrealistic method of funding non-personal services. I'll elaborate on each of these but first permit me to provide some background information about the administrative funding of the unemployment insurance system.

The unemployment insurance system is funded from tax receipts collected by the federal government under the Federal Unemployment Tax Act (FUTA). (I want to emphasize that I am discussing the administrative funding only.) Appropriations are made by Congress as part of the budget process. These appropriations are apportioned to the states by the United States Department of Labor, based on an anticipated workload. There are provisions for contingency funding when the actual work exceeds that anticipated.

The funding basis for the unemployment insurance program is unique in governmental budgeting. In essence, unemployment insurance is funded on a piece-work basis. It is impossible to determine exactly the number of unemployment insurance claims which will be processed in a fiscal year. Therefore, a mechanism was developed to provide additional funding when claims rise, and to reduce funding when claims decline below estimates. Because the number of claims to be processed is uncertain, each operation in processing an unemployment compensation claim, maintaining claims control functions, and adjudicating appeals is studied and a time factor to process the average claim is determined. This time factor is expressed in "minutes per unit" (MPU).

To determine the appropriate minutes per unit time factor, the Secretary of Labor developed a nationwide program within which the costs for administering each state's program would be funded. These so-called "cost model studies" break down, in detail, the time required to process the claims while maintaining quality and administrative controls. The most critical element in the budgeting process for unemployment insurance operations is the minutes per unit factor. State administrators, in general, do not quarrel with the adjustment of staff as workloads rise or fall, so long as an adequate base staff is permitted.

My first concern, which I know is shared by most state administrators, is one of continuing inadequate funding to support the minimum staff as determined by the Secretary of Labor's mandated cost model study. Each year since about 1980 in the Commonwealth of Virginia, we have been given, by the Department of Labor, a further reduced minutes per unit to process the work. While the cost model study determines the minutes per unit for the various required processing activities, the

funding has not been granted at the commensurate level. Each year the amount of funds are further compressed while the actual time required to complete the job remains the same. For example, in Virginia, the amount of time needed to process an initial claim for unemployment compensation was determined by the cost model study to be approximately 40.5 minutes. In 1980, we were funded for 37 minutes; in 1983 approximately 35 minutes, and this has been compressed to 33.9 minutes in 1984. On the surface these reductions may appear small, but the consequence of the insufficient funding of the minutes per unit is significant. Its immediate result is less base staff to perform unemployment insurance functions. For example, in 1984, positions funded for the processing of initial claims totaled 107 while the cost model minutes per unit determined the needed positions to be 133—a difference of 26 positions underfunded for this one function, or a reduction of 19.4 percent below Department of Labor determined need. The Virginia Employment Commission is being forced to process unemployment compensation claims with less staff and in less time which results in lower quality of work performed.

The problem of funding deficiencies for the unemployment insurance program has another distinct part in addition to the staffing issue which I have just discussed. My second concern is funding for nonpersonal services (NPS); e.g. leases, computers, communications. The Secretary's current method of funding for NPS is unrealistic and totally unrelated to lease commitments, telephone requirements, or similar fixed needs for which the State may be obligated. Rather, NPS are apportioned in direct relation to the number of staff positions supported by the staffing formula. For example, the funding for premises is unrelated to the number of offices required to serve the unemployed over a period of time; the formula inappropriately presumes that rental space can be expanded and curtailed within a short period of time in direct proportion to the number of claimants immediately served.

The formula does not allow for substantial cost increases from year to year in other categories beyond our control. In communications and supplies, our costs increased by 242 and 60 percent, respectively between Fiscal Years 1980 and 1983, without a corresponding increase in funding.

In 1983 Virginia received $3,256,159 to pay for these nonpersonal services. This amount was recued to $3,058,602 in 1984 and has been further reduced in 1985 to $2,987,650. This reduction fails to recognize an inflation factor of approximately 7.5 percent tremendous categorical increases such as communications and computer service charges, and leases that are fixed. This failure to sufficiently fund NPS costs has forced Virginia, and many other states, to further reduce the staff to provide the necessary services to the public. This reduction of staff is in addition to those which resulted from the compressed MPU staff year computation and which were explained earlier. In 1982 Virginia converted 20 staff positions ($350,222) to help relieve the shortfall in NPS funding. In 1983 we converted 25 positions ($493,800) and in 1984, 22 positions ($454,313) have been converted to NPS funds to help eliminate the current NPS deficit. In addition, a substantial number of positions funded for UI support functions has been left vacant each year to pay NPS obligations when additional funding was not realized during the fiscal year.

This forced reduction in base staff not only limits the ability to adequately administer the program, but it has resulted in a permanent reduction in staff. Prior to Fiscal Year 1982, Virginia underused tax positions to provide funding for the NPS deficits. DOL observed this underusage of funded positions and without knowing the reason for the underusage, reduced the number of tax positions to those positions actually used. Therefore, the 25–30 tax positions previously converted to NPS were no longer available nor did we receive any NPS money. We lost both positions and money. It isn't hard to realize that many, or most, states are finding themselves in a classic "catch-22." There seems to be no hope of overcoming this until additional funding for nonpersonal services is provided on a realistic basis, or until there is a complete overhaul of the Department of Labor administrative funding system. I can assure you that I have daily concerns surrounding the inadequate unemployment insurance funding. How well I know and constantly remind myself that the Virginia State Appropriations Act prohibits deficit spending and holds the agency head personally liable for such deficits. I, too, realize that as an administrator, I must reduce staff and services to eliminate the deficit. At the same time, I am reminded of the yearly last-minute bailouts by the Department of Labor. How do I explain reduced performance levels and delivery of services by the agency when the budget, due to last minute approvals appears to have a surplus or is balanced at year's end? It is an unexplainable, maddening process that must be revised for the sake of the unemployed, administrators, and employers.

Fortunately, you and your colleagues have heard of the many states' plight in NPS funding deficits and have recently approved a supplemental appropriation bill

for the much needed funds to help cover the remaining nonpersonal service deficits for Fiscal Year 1984.

What then * * * 1985?

Virginia has received from the Department of Labor our initial budget allocation to staff and support the unemployment insurance program for Fiscal Year 1985, which begins October 1 of this year. This budget, once again, plays out the scenario of previous years—a further reduction in staff positions to do the work and woeful underfunding of nonpersonal services to support that effort. The MPU to process an initial claim has been reduced again from 33.9 minutes in 1984 to 32.7 minutes for Fiscal Year 1985—another minute of time so desperately needed to maintain a degree of quality in the program has been lost. Instead of 142 positions justified by the secretary's cost model study we will receive 115—a difference of 27 positions underfunded for this one function. A 19.2 percent reduction in the level of need as determined by the Department of Labor!

Benefit Payment Control staffing—those positions charged with the responsibility of ferreting out fraud and abuse in the system to which a major emphasis and a concentration of effort has been placed in recent years—was reduced from 28 positions in Fiscal Year 1984 to 18 in Fiscal Year 1985, a loss of 10 positions or 35.1 percent in one year. One begins to wonder how an administrator can maintain stability. It is becoming, I assure you, increasingly difficult with each new budget year. The coup de grace has been extended with the nonpersonal services allocation for Fiscal Year 1985—$2,942,352—a reduction of $295,813 from Fiscal Year 1984—at a time when it is fully realized by the Department of Labor that our expenditures for Fiscal Year 1984 are projected to be $4,200,000 and for Fiscal year 1985 a hold-the-line budget of $4,273,000. The 1985 underfunding for NPS is $1,330,648, or 31 percent less than needed just to stand pat. This is simply unrealistic and borders on the ludicrous.

I must, once again, turn to staff reductions to offset this projected deficit—33 positions or $792,585 will be converted to NPS dollars. The Virginia employers and claimants, I assure you, will pay the price for this staff abolishment. I hasten to add, even with this reduction, our NPS underfunding has been not resolved. A projected deficit of $465,063 still remains to be addressed during this coming twelve months. Will Congress once again approve a supplemental appropriations bill for NPS? It is commendable that the Congress review the various program components of unemployment insurance. But let me encourage this subcommittee to review the administrative financing for unemployment insurance. If this major problem isn't resolved, we are jeopardizing the quality of the unemployment insurance program and the trust funds that are paid for by the employers of this country. Ultimately the people for whom the system is intended will be the ones that suffer.

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